



# Ciena Corporation Q2 Fiscal 2013 Earnings Call

June 6, 2013  
8:30 a.m. Eastern

(updated 6:30 p.m. Eastern on June 6, 2013 as to slide 7)



# Forward-looking statements and non-GAAP measures

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

These forward looking statements, based on information, expectations, prospects, forecasts and assumptions available to Ciena as of the date of this event, involve inherent risk. Ciena's actual results could differ materially from those stated, forecasted or implied, due to a number of risks and uncertainties associated with Ciena's business, operations and markets, including those risk factors disclosed in Ciena's Form 10-Q filed with the SEC on March 13, 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.

# Q2 Fiscal 2013 Financial Highlights

## Key Takeaways

- 1 **Revenue** of \$507.7 million
- 2 **Adjusted gross margin** of 42.5%\*
- 3 **Adjusted operating expense** of \$197.4 million\*
- 4 **Adjusted operating margin** of 3.7%\*
- 5 **Adjusted net income** of \$ 2.2 million or \$0.02 per share\*

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

# Q2 Fiscal 2013 Balance Sheet and Operating Metrics

	
Cash and investments <i>(Reflects the payment at maturity of \$216.2M in outstanding principal amount on our 2013 convertible senior notes)</i>	\$456.5 million
Cash flow from Operations	\$44.9 million
DSO	75 Days
Inventory Turns	3.9
Headcount (as of April 30, 2013)	4,546

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# Q2 Fiscal 2013 Financial Summary

(Amounts in millions)

	Q2 FY 2013	Q1 FY 2013	Q4 FY 2012	Q3 FY 2012	Q2 FY 2012	Period Change	
						Q-T-Q	Y-T-Y
Revenue	\$ 507.7	\$ 453.1	\$ 465.5	\$ 474.1	\$ 477.6	12.1%	6.3%
Adjusted Gross Margin*	42.5%	44.6%	42.7%	39.6%	39.6%	(2.1)%	2.9%
Adjusted Operating Expenses*	\$ 197.4	\$ 176.6	\$ 191.8	\$ 175.6	\$ 172.9	11.8%	14.2%
Adjusted Operating Margin*	3.7%	5.6%	1.4%	2.5%	3.4%	(1.9)%	0.3%
Adjusted Net Income*	\$ 2.2	\$ 12.3	\$ (6.7)	\$ (4.1)	\$ 3.7	(82.1)%	(40.5)%
Adjusted EPS*	\$ 0.02	\$ 0.12	\$ (0.07)	\$ (0.04)	\$ 0.04	\$ (0.10)	\$ (0.02)

\* Amounts are non-GAAP measures and a reconciliation to our GAAP results is included in the appendix of this presentation.

# Revenue by Segment

(Amounts in millions)

## Revenue by Segment

	Q2 FY2013	Q1 FY2013	Q4 FY2012	Q3 FY2012	Q2 FY2012
Converged Packet-Optical	\$ 294.3	\$ 240.0	\$ 238.1	\$ 246.5	\$ 264.6
Packet Networking	\$ 54.2	\$ 45.8	\$ 47.3	\$ 30.2	\$ 29.9
Optical Transport	\$ 57.4	\$ 57.6	\$ 71.8	\$ 89.8	\$ 84.4
Software and Services	\$ 101.8	\$ 109.7	\$ 108.3	\$ 107.6	\$ 98.7
<b>Total</b>	<b>\$ 507.7</b>	<b>\$ 453.1</b>	<b>\$ 465.5</b>	<b>\$ 474.1</b>	<b>\$ 477.6</b>

## % of Total Revenue

	Q2 FY2013	Q1 FY2013	Q4 FY2012	Q3 FY2012	Q2 FY2012
Converged Packet-Optical	57.9%	53.0%	51.1%	52.0%	55.4%
Packet Networking	10.7%	10.1%	10.2%	6.4%	6.3%
Optical Transport	11.3%	12.7%	15.4%	18.9%	17.7%
Software and Services	20.1%	24.2%	23.3%	22.7%	20.6%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

# Revenue by Geographic Region

(Amounts in millions)

## Revenue

	Q2 FY2013	Q1 FY2013	Q4 FY2012	Q3 FY2012	Q2 FY2012
United States	\$ 287.6	\$ 264.2	\$ 249.5	\$ 237.3	\$ 252.7
International	\$ 220.1	\$ 188.9	\$ 216.0	\$ 236.8	\$ 224.9
<b>Total</b>	<b>\$ 507.7</b>	<b>\$ 453.1</b>	<b>\$ 465.5</b>	<b>\$ 474.1</b>	<b>\$ 477.6</b>

## % of Total Revenue

	Q2 FY2013	Q1 FY2013	Q4 FY2012	Q3 FY2012	Q2 FY2012
United States	56.6%	58.3%	53.6%	50.1%	52.9%
International	43.4%	41.7%	46.4%	49.9%	47.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>



# Q3 Fiscal 2013 Business Outlook<sup>1</sup>

Revenue	\$515 to \$545 million
Adjusted Gross Margin	Low 40s percent range
Adjusted Operating Expense	Mid \$190Ms range

<sup>1</sup> Projections or outlook with respect to future operating results are only as of June 6, 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.

# Appendix



## Gross Profit Reconciliation

(Amounts in GAAP/Non-GAAP and in millions)

	Q2 FY2013	Q1 FY2013	Q4 FY2012	Q3 FY2012	Q2 FY2012
GAAP gross profit	\$ 209,513	\$ 195,795	\$ 192,206	\$ 181,321	\$ 182,941
Share-based compensation-products	686	561	647	564	460
Share-based compensation-services	435	427	326	332	367
Amortization of intangible assets	5,384	5,385	5,384	5,385	5,484
Total adjustments related to gross profit	6,505	6,373	6,357	6,281	6,311
<b>Adjusted (non-GAAP) gross profit</b>	<b>\$ 216,018</b>	<b>\$ 202,168</b>	<b>\$ 198,563</b>	<b>\$ 187,602</b>	<b>\$ 189,252</b>
<b>Adjusted (non-GAAP) gross margin</b>	<b>42.5%</b>	<b>44.6%</b>	<b>42.7%</b>	<b>39.6%</b>	<b>39.6%</b>

## Operating Expense Reconciliation

(Amounts in GAAP/Non-GAAP and in millions)

	Q2 FY2013	Q1 FY2013	Q4 FY2012	Q3 FY2012	Q2 FY2012
GAAP operating expense	\$ 220,093	\$ 201,404	\$ 214,141	\$ 196,593	\$ 194,404
Share-based compensation-research and development	2,204	2,033	2,500	1,841	2,092
Share-based compensation-sales and marketing	3,382	2,743	3,048	2,589	2,820
Share-based compensation-general and administrative	3,144	2,556	2,205	1,547	2,141
Acquisition and integration costs	-	-	20	6	(410)
Amortization of intangible assets	12,439	12,453	12,545	12,714	12,967
Restructuring costs	1,509	5,030	1,990	2,291	1,851
Total adjustments related to operating expense	22,678	24,815	22,308	20,988	21,461
<b>Adjusted (non-GAAP) operating expense</b>	<b>\$ 197,415</b>	<b>\$ 176,589</b>	<b>\$ 191,833</b>	<b>\$ 175,605</b>	<b>\$ 172,943</b>

## Income (Loss) from Operations Reconciliation

(Amounts in GAAP/Non-GAAP and in millions)

	Q2 FY2013	Q1 FY2013	Q4 FY2012	Q3 FY2012	Q2 FY2012
GAAP loss from operations	\$ (10,580)	\$ (5,609)	\$ (21,935)	\$ (15,272)	\$ (11,463)
Total adjustments related to gross profit	6,505	6,373	6,357	6,281	6,311
Total adjustments related to operating expense	22,678	24,815	22,308	20,988	21,461
<b>Adjusted (non-GAAP) income from operations</b>	<b>18,603</b>	<b>25,579</b>	<b>6,730</b>	<b>11,997</b>	<b>16,309</b>
<b>Adjusted (non-GAAP) operating margin</b>	<b>3.7%</b>	<b>5.6%</b>	<b>1.4%</b>	<b>2.5%</b>	<b>3.4%</b>

## Net Income (Loss) Reconciliation

(Amounts in GAAP/Non-GAAP and in millions)

	Q2 FY2013	Q1 FY2013	Q4 FY2012	Q3 FY2012	Q2 FY2012
GAAP net loss	\$ (27,079)	\$ (47,324)	\$ (38,771)	\$ (29,817)	\$ (27,780)
Total adjustments related to gross profit	6,505	6,373	6,357	6,281	6,311
Total adjustments related to operating expense	22,678	24,815	22,308	20,988	21,461
Loss on extinguishment of debt	-	28,630	-	-	-
Non-cash interest expense	247	100	-	-	-
Change in fair-value of embedded redemption feature	(120)	(310)	3,440	(1,570)	3,750
<b>Adjusted (non-GAAP) net income (loss)</b>	<b>\$ 2,231</b>	<b>\$ 12,284</b>	<b>\$ (6,666)</b>	<b>\$ (4,118)</b>	<b>\$ 3,742</b>
Weighted average basic common shares outstanding	101,913	101,204	100,506	99,530	98,981
Weighted average dilutive potential common shares outstanding	103,165	120,817	100,506	99,530	100,715

## Net Income (Loss) per Common Share

	Q2 FY2013	Q1 FY2013	Q4 FY2012	Q3 FY2012	Q2 FY2012
GAAP diluted net loss per common share	\$ (0.27)	\$ (0.47)	\$ (0.39)	\$ (0.30)	\$ (0.28)
<b>Adjusted (Non-GAAP) diluted net income (loss) per common share</b>	<b>\$ 0.02</b>	<b>\$ 0.12</b>	<b>\$ (0.07)</b>	<b>\$ (0.04)</b>	<b>\$ 0.04</b>