



Ciena Corporation Q4 and Year-end Fiscal 2014 Earnings Call

December 11, 2014
8:30 a.m. EST

A low-angle photograph of a city skyline, featuring several tall buildings with many windows. The entire image is tinted with a warm, orange-red color, creating a dramatic and modern atmosphere.

make [transformation] possible

Forward-looking statements and non-GAAP measures

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

These forward looking statements, based on information, expectations, prospects, forecasts and assumptions available to Ciena as of the date of this event, involve inherent risk. Ciena's actual results could differ materially from those stated, forecasted or implied, due to a number of risks and uncertainties associated with Ciena's business, operations and markets, including those risk factors disclosed in Ciena's Form 10-Q filed with the SEC on September 11th, 2014.

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

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

Key Messages

1

We made progress against our strategic and financial objectives in FY'14. Our portfolio and go-to-market investments position us to continue to grow revenue and increase profitability in FY'15.

- Our FY'14 financial performance benefited from improved diversification of our business, including customer segments, geographic regions and applications for our solutions.
- We expect our expanded role and reach to provide a strong foundation for us to achieve our FY'15 financial objectives

2

Our leading position with both the service provider and Webscale operators uniquely positions Ciena for success in these key segments.

- The roles of service providers and the Webscale community are interdependent and dynamic and as the cloud ecosystem develops working with both segments is important.
- Infonetics Service Provider survey: Ciena is #1 overall optical supplier, packet-optical systems, transport and switching, and transport SDN and control plane
- Ovum Webscale report: Ciena has #1 market share in the Web 2.0* / Webscale space (1H 2014)

3

We've invested in a portfolio of platforms and application software that is well aligned with the shift to on-demand business models in the cloud by service providers, Webscale operators and enterprises.

- **8700 Packetwave:** Expands our metro and data center networking opportunities – already nine customers
- **Agility Matrix:** Creates new business model for managed services providers and enables virtualized network functions as on-demand consumption-based services
- **New solutions in 2015:** Greater reach, higher density and cost reduction benefits

Q4 Fiscal 2014 Financial Highlights

Key Takeaways

- 1 **Revenue** of \$591.0 million
- 2 **Adjusted Gross Margin** of 37.9%*
- 3 **Adjusted Operating Expense** of \$203.7 million*
- 4 **Adjusted Operating Margin** of 3.4%*
- 5 **Adjusted Net Income** of \$(8.2) million or \$(0.08) per share*

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

Q4 Fiscal 2014 Balance Sheet and Operating Metrics

Cash and Investments	\$777.0 million*
Cash Flow from Operations	\$73.8 million
DSO	79 Days
Inventory Turns	4.8
Headcount (as of October 31, 2014)	5,161

**Includes the proceeds from the term loan facility that we closed in FY3Q'14*

Q4 Fiscal 2014 Financial Summary

(Amounts in millions)

	Q4 FY2014	Q3 FY2014	Q2 FY2014	Q1 FY2014	Q4 FY 2013	Period Change	
						Q-T-Q	Y-T-Y
Revenue	\$ 591.0	\$ 603.6	\$ 560.1	\$ 533.7	\$ 583.4	(2.1)%	1.3%
Adjusted Gross Margin*	37.9%	44.3%	43.1%	43.4%	40.8%	(6.4)%	(2.9)%
Adjusted Operating Expenses*	\$ 203.7	\$ 206.3	\$ 206.3	\$ 199.8	\$ 210.5	(1.3)%	(3.2)%
Adjusted Operating Margin*	3.4%	10.1%	6.2%	5.9%	4.7%	(6.7)%	(1.3)%
Adjusted Net Income (Loss)*	\$ (8.2)	\$ 40.9	\$ 19.4	\$ 13.7	\$ 18.3	\$ (49.1)	\$ (26.5)
Adjusted EPS*	\$ (0.08)	\$ 0.32	\$ 0.17	\$ 0.13	\$ 0.16	\$ (0.40)	\$ (0.24)

* 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 FY2014	Q3 FY2014	Q2 FY2014	Q1 FY2014	Q4 FY2013
Converged Packet-Optical	\$ 383.3	\$ 382.0	\$ 356.8	\$ 333.4	\$ 350.9
Packet Networking	\$ 56.4	\$ 69.5	\$ 66.6	\$ 51.7	\$ 61.2
Optical Transport	\$ 26.5	\$ 31.0	\$ 29.6	\$ 40.1	\$ 52.6
Software and Services	\$ 124.8	\$ 121.1	\$ 107.1	\$ 108.5	\$ 118.7
Total	\$ 591.0	\$ 603.6	\$ 560.1	\$ 533.7	\$ 583.4

% of Total Revenue

	Q4 FY2014	Q3 FY2014	Q2 FY2014	Q1 FY2014	Q4 FY2013
Converged Packet-Optical	64.9%	63.3%	63.7%	62.5%	60.2%
Packet Networking	9.5%	11.5%	11.9%	9.7%	10.5%
Optical Transport	4.5%	5.1%	5.3%	7.5%	9.0%
Software and Services	21.1%	20.1%	19.1%	20.3%	20.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Revenue by Geographic Region

(Amounts in millions)

Revenue

	Q4 FY2014	Q3 FY2014	Q2 FY2014	Q1 FY2014	Q4 FY2013
United States	\$ 308.5	\$ 368.1	\$ 324.0	\$ 317.4	\$ 326.2
International	\$ 282.5	\$ 235.5	\$ 236.1	\$ 216.3	\$ 257.2
Total	\$ 591.0	\$ 603.6	\$ 560.1	\$ 533.7	\$ 583.4

% of Total Revenue

	Q4 FY2014	Q3 FY2014	Q2 FY2014	Q1 FY2014	Q4 FY2013
United States	52.2%	61.0%	57.8%	59.5%	55.9%
International	47.8%	39.0%	42.2%	40.5%	44.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Three-Year Financial Summary

(Amounts in millions)

	FY2014	FY 2013	FY 2012
Revenue	\$ 2,288.3	\$ 2,082.5	\$ 1,833.9
Adjusted Gross Margin*	42.1%	42.8%	40.9%
Adjusted Operating Expenses*	\$ 816.1	\$ 775.0	\$ 715.8
Adjusted Operating Margin*	6.5%	5.6%	1.9%
Adjusted Net Income (Loss)*	\$ 65.8	\$ 59.0	\$ (23.5)
Adjusted EPS*	\$ 0.59	\$ 0.54	\$ (0.24)

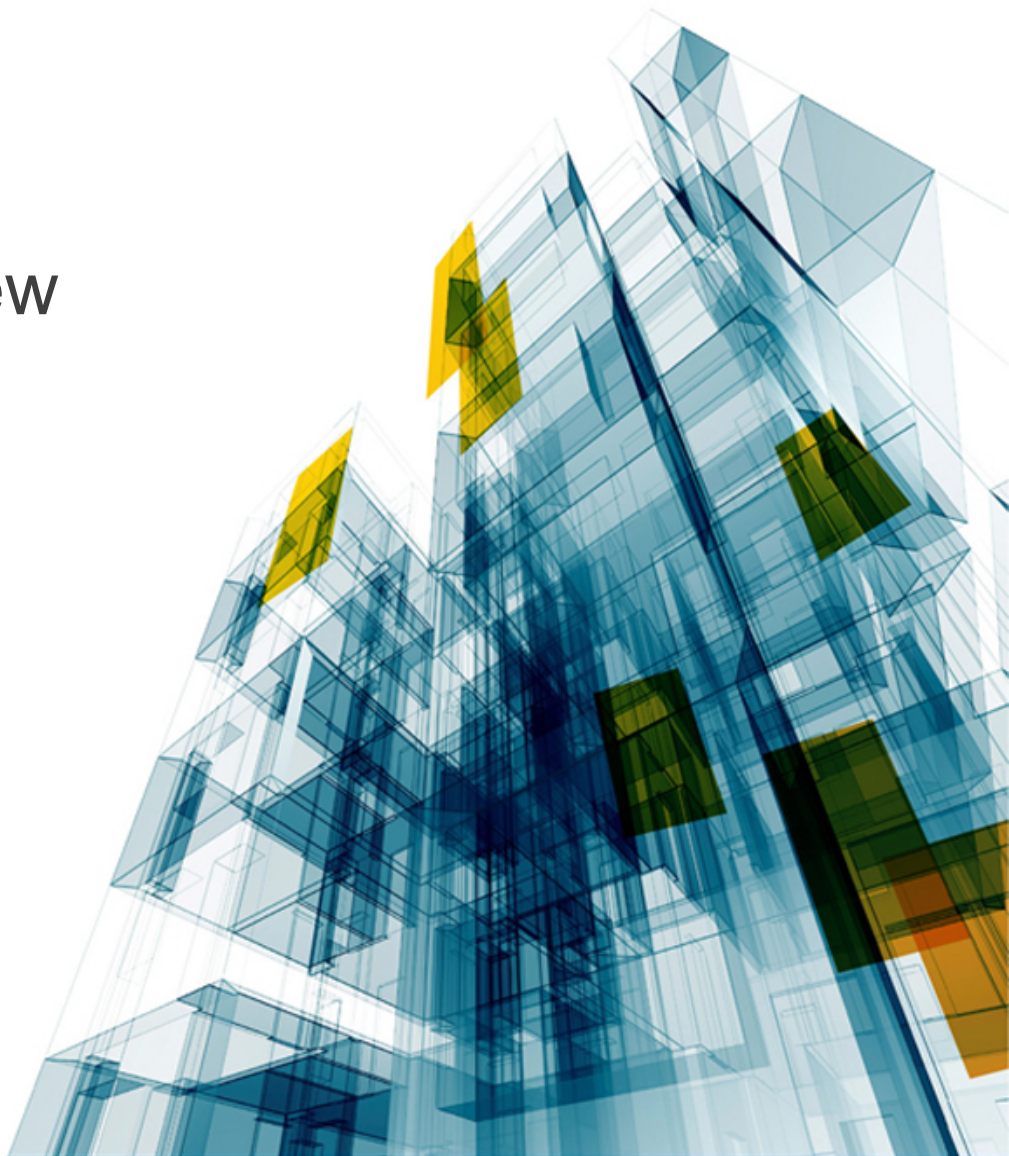
* A reconciliation of these non-GAAP measures to our GAAP results is included in the appendix to this presentation.

Q1 Fiscal 2015 Business Outlook¹

Revenue	\$540 to 570 million
Adjusted Gross Margin	Low 40s percent range
Adjusted Operating Expense	Approximately \$210 million range

¹ Projections or outlook with respect to future operating results are only as of December 11, 2014 the date presented on the related earnings call. Ciena assumes no obligation to update this information, whether as a result of new information, future events, or otherwise.

Convertible Debt Overview



CONVERTIBLE DEBT PROFILE*



- \$1.2B aggregate principal amount outstanding; \$725M has a conversion price of slightly above \$20
 - For some portion of the debt, once the stock reaches and sustains certain prices that are 30 - 50% above the conversion price, Ciena has the ability to cause a conversion or to exercise a redemption right in an effort to cause a conversion.*
- Shares underlying the convertible notes are added to the weighted average dilutive potential shares outstanding at specific net income assumption levels that correlate to each issue (see slide 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 ISSUE¹

	Par Value (in millions)	Underlying Shares (in thousands)	Conversion Price	Additional Redemption / Conversion Provisions	Net Income Threshold for Diluted EPS (in millions)²
4.0% convertible senior notes, due March 15, 2015	\$187.5	9,198	\$20.39	Redeemable for cash (plus a make whole) at Ciena's election - If closing price is \geq \$30.59 for 20 of 30 consecutive trading days	\$27
0.875% convertible senior notes, due June 15, 2017	\$500	13,108	\$38.15	No	\$11
3.75% convertible senior notes due October 15, 2018	\$350	17,356	\$20.17	No	\$24
4.0% convertible senior notes, due March 15, 2020	\$187.5	9,198	\$20.39	Convertible into shares, (plus a make whole), at Ciena's election - If VWAP is \geq \$26.51 for 20 of 30 consecutive trading days	\$44

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

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

Convertible Notes and Diluted EPS Analysis

Outstanding Notes	Par Value	Quarterly Assumptions							The quarterly net income assumption levels must be equal or greater than below amounts for the respective underlying common shares from the issue to be included in Diluted EPS	
		Coupon Interest Expense	Debt Issuance Cost	Non-Cash Interest Expense from Accretion of Principal	Non-Cash Interest Expense from Amortization of Redemption Option and Debt Discount	Total Interest Expense	Underlying Common Shares	Current Weighted Average Basic Common Shares Outstanding		
.875% notes due 2017	500,000	1,094	294			1,388	13,108	106,931	\$	11,454
3.75% notes due 2018	350,000	3,281	309			3,590	17,356	106,931	\$	23,705
4.0% notes due 2015	187,500	1,875	257		(43)	2,089	9,198	106,931	\$	26,512
4.0% notes due 2020	187,500	1,875	76	885	351	3,187	9,198	106,931	\$	44,162
Total	\$ 1,225,000	\$ 8,125	\$ 936	\$ 885	\$ 308	\$ 10,254	48,860			

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

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


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

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

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



Q4 Fiscal 2014 Appendix

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

make [transformation] possible

Gross Profit Reconciliation

(Amounts in thousands)

	Q4 FY2014	Q3 FY2014	Q2 FY2014	Q1 FY2014	Q4 FY2013
GAAP gross profit	\$ 220,837	\$ 263,973	\$ 237,691	\$ 225,851	\$ 231,646
Share-based compensation-products	547	737	741	506	617
Share-based compensation-services	496	572	568	580	448
Amortization of intangible assets	2,201	2,201	2,328	4,451	5,384
Total adjustments related to gross profit	3,244	3,510	3,637	5,537	6,449
Adjusted (non-GAAP) gross profit	\$ 224,081	\$ 267,483	\$ 241,328	\$ 231,388	\$ 238,095
Adjusted (non-GAAP) gross margin	37.9%	44.3%	43.1%	43.4%	40.8%

Operating Expense Reconciliation (Amounts in thousands)

	Q4 FY2014	Q3 FY2014	Q2 FY2014	Q1 FY2014	Q4 FY2013
GAAP operating expense	\$ 222,652	\$ 226,971	\$ 230,529	\$ 222,496	\$ 232,063
Share-based compensation-research and development	1,960	2,368	2,782	2,572	1,923
Share-based compensation-sales and marketing	2,759	3,890	4,246	4,063	3,603
Share-based compensation-general and administrative	3,025	3,376	3,661	3,506	3,157
Amortization of intangible assets	11,019	11,019	11,493	12,439	12,439
Restructuring costs	171	63	-	115	428
Settlement of patent litigation	-	-	2,000	-	-
Total adjustments related to operating expense	18,934	20,716	24,182	22,695	21,550
Adjusted (non-GAAP) operating expense	\$ 203,718	\$ 206,255	\$ 206,347	\$ 199,801	\$ 210,513

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

	Q4 FY2014	Q3 FY2014	Q2 FY2014	Q1 FY2014	Q4 FY2013
GAAP income (loss) from operations	\$ (1,815)	\$ 37,002	\$ 7,162	\$ 3,355	\$ (417)
Total adjustments related to gross profit	3,244	3,510	3,637	5,537	6,449
Total adjustments related to operating expense	18,934	20,716	24,182	22,695	21,550
Adjusted (non-GAAP) income from operations	\$20,363	\$ 61,228	\$ 34,981	\$ 31,587	\$ 27,582
Adjusted (non-GAAP) operating margin	3.4%	10.1%	6.2%	5.9%	4.7%

Net Income (Loss) Reconciliation (Amounts in thousands)

	Q4 FY2014	Q3 FY2014	Q2 FY2014	Q1 FY2014	Q4 FY2013
GAAP net income (loss)	\$ (30,703)	\$ 16,160	\$ (10,158)	\$ (15,936)	\$ (9,797)
Total adjustments related to gross profit	3,244	3,510	3,637	5,537	6,449
Total adjustments related to operating expense	18,934	20,716	24,182	22,695	21,550
Non-cash interest expense	351	327	302	293	284
Change in fair-value of embedded redemption feature	-	190	1,460	1,090	(230)
Adjusted (non-GAAP) net income (loss)	\$(8,174)	\$ 40,903	\$ 19,423	\$ 13,679	\$ 18,256
Weighted average basic common shares outstanding	106,931	106,236	105,451	104,501	103,523
Weighted average dilutive potential common shares outstanding	106,931	156,561 ¹	120,628 ³	119,789 ⁵	119,401 ⁷

Net Income (Loss) per Common Share

	Q4 FY2014	Q3 FY2014	Q2 FY2014	Q1 FY2014	Q4 FY2013
GAAP diluted net income (loss) per common share	\$ (0.29)	\$ 0.15	\$ (0.10)	\$ (0.15)	\$ (0.09)
Adjusted (Non-GAAP) diluted net income (loss) per common share	\$ (0.08)	\$ 0.32²	\$ 0.17⁴	\$ 0.13⁶	\$ 0.16⁸

Gross Profit Reconciliation

(Amounts in thousands)

	FY2014	FY2013	FY2012
GAAP gross profit	\$ 948,352	\$ 865,175	\$ 724,224
Share-based compensation-products	2,531	2,522	2,156
Share-based compensation-services	2,216	1,771	1,462
Amortization of intangible assets	11,181	21,537	22,032
Total adjustments related to gross profit	15,928	25,830	25,650
Adjusted (non-GAAP) gross profit	\$ 964,280	\$ 891,005	\$ 749,874
Adjusted (non-GAAP) gross margin	42.1%	42.8%	40.9%

Operating Expense Reconciliation (Amounts in thousands)

	FY2014	FY2013	FY2012
GAAP operating expense	\$ 902,648	\$ 866,950	\$ 804,070
Share-based compensation-research and development	9,682	8,214	8,567
Share-based compensation-sales and marketing	14,958	13,290	11,558
Share-based compensation-general and administrative	13,568	12,055	8,691
Acquisition and integration costs	-	-	(120)
Amortization of intangible assets	45,970	49,771	51,697
Restructuring costs	349	7,169	7,854
Settlement of patent litigation	2,000	1,500	-
Total adjustments related to operating expense	86,527	91,999	88,247
Adjusted (non-GAAP) operating expense	\$ 816,121	\$ 774,951	\$ 715,823

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

	FY2014	FY2013	FY2012
GAAP income (loss) from operations	\$ 45,704	\$ (1,775)	\$ (79,846)
Total adjustments related to gross profit	15,928	25,830	25,650
Total adjustments related to operating expense	86,527	91,999	88,247
Adjusted (non-GAAP) income from operations	\$ 148,159	\$ 116,054	\$ 34,051
Adjusted (non-GAAP) operating margin	6.5%	5.6%	1.9%

Net Income (Loss) Reconciliation (Amounts in thousands)

	FY2014	FY2013	FY2012
GAAP net loss	\$ (40,637)	\$ (85,431)	\$ (144,021)
Total adjustments related to gross profit	15,928	25,830	25,650
Total adjustments related to operating expense	86,527	91,999	88,247
Loss on extinguishment of debt	-	28,630	-
Non-cash interest expense	1,273	898	-
Change in fair-value of embedded redemption feature	2,740	(2,950)	6,600
Adjusted (non-GAAP) net income (loss)	\$ 65,831	\$ 58,976	\$ (23,524)
Weighted average basic common shares outstanding	105,783	102,350	99,341
Weighted average dilutive potential common shares outstanding	120,950 ⁹	120,263 ¹¹	99,341

Net Income (Loss) per Common Share

	FY2014	FY2013	FY2012
GAAP diluted net loss per common share	\$ (0.38)	\$ (0.83)	\$ (1.45)
Adjusted (Non-GAAP) diluted net income (loss) per common share	\$ 0.59¹⁰	\$ 0.54¹²	\$ (0.24)

Reconciliation Endnotes

1. *Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income per common share for the third quarter of fiscal 2014 includes 1.5 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, 17.4 million shares underlying Ciena's 3.75% convertible senior notes, due October 15, 2018, and 9.2 million shares underlying Ciena's 4.0% convertible senior notes, due December 15, 2020.*
2. *The calculation of Adjusted (non-GAAP) diluted net income per common share for the third quarter of fiscal 2014 requires adding back interest expense of approximately \$2.1 million associated with Ciena's 4.0% convertible senior notes, due March 15, 2015, \$1.4 million associated with Ciena's 0.875% convertible senior notes, due June 15, 2017, \$3.6 million associated with Ciena's 3.75% convertible senior notes, due October 15, 2018, and \$2.8 million associated with Ciena's 4.0% convertible senior notes, due December 15, 2020 to the Adjusted (non-GAAP) net income in order to derive the numerator for the Adjusted earnings per common share calculation.*
3. *Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income per common share for the second quarter of fiscal 2014 includes 2.1 million shares underlying certain stock options and restricted stock units, and 13.1 million shares underlying Ciena's 0.875% convertible senior notes, due June 15, 2017.*
4. *The calculation of Adjusted (non-GAAP) diluted net income per common share for the second quarter of fiscal 2014 requires adding back interest expense of approximately \$1.4 million associated with Ciena's 0.875% convertible senior notes, due June 15, 2017 to the Adjusted (non-GAAP) net income in order to derive the numerator for the Adjusted earnings per common share calculation.*
5. *Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income per common share for the first quarter of fiscal 2014 includes 2.2 million shares underlying certain stock options and restricted stock units, and 13.1 million shares underlying Ciena's 0.875% convertible senior notes, due June 15, 2017.*
6. *The calculation of Adjusted (non-GAAP) diluted net income per common share for the first quarter of fiscal 2014 requires adding back interest expense of approximately \$1.4 million associated with Ciena's 0.875% convertible senior notes, due June 15, 2017 to the Adjusted (non-GAAP) net income in order to derive the numerator for the Adjusted earnings per common share calculation.*
7. *Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income per common share for the fourth quarter of fiscal 2013 includes 2.8 million shares underlying certain stock options and restricted stock units and 13.1 million shares underlying Ciena's 0.875% convertible senior notes, due June 15, 2017.*
8. *The calculation of Adjusted (non-GAAP) diluted net income per common share for the fourth quarter of fiscal 2013 requires adding back interest expense of approximately \$1.4 million associated with Ciena's 0.875% convertible senior notes, due June 15, 2017 to the Adjusted (non-GAAP) net income in order to derive the numerator for the Adjusted earnings per common share calculation.*
9. *Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income per common share for fiscal 2014 includes 2.1 million shares underlying certain stock options and restricted stock units and 13.1 million shares underlying Ciena's 0.875% convertible senior notes, due June 15, 2017.*
10. *The calculation of Adjusted (non-GAAP) diluted net income per common share for fiscal 2014 requires adding back interest expense of approximately \$5.5 million associated with Ciena's 0.875% convertible senior notes, due June 15, 2017 to the Adjusted (non-GAAP) net income in order to derive the numerator for the Adjusted earnings per common share calculation.*
11. *Weighted average dilutive potential common shares outstanding used in calculating Adjusted (non-GAAP) diluted net income 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 due May 1, 2013 (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.*
12. *The calculation of Adjusted (non-GAAP) diluted net income 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 due May 1, 2013 (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 in order to derive the numerator for the Adjusted earnings per common share calculation.*

...