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 July 31, 2007

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 (State or other jurisdiction of incorporation or organization)	**23-2725311** (I.R.S. Employer Identification No.)
1201 Winterson Road, Linthicum, MD (Address of Principal Executive Offices)	**21090** (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 August 24, 2007
common stock, $.01 par value	85,964,108

CIENA CORPORATION

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FORM 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Quarter Ended July 31,		Nine Months Ended July 31,	
	2006	2007	2006	2007
Revenues:				
Products	$ 137,809	$ 182,143	$ 360,958	$ 501,637
Services	14,690	22,808	43,146	61,942
Total revenue	152,499	204,951	404,104	563,579
Costs:				
Products	70,356	84,383	189,712	250,681
Services	10,479	22,903	29,367	59,775
Total cost of goods sold	80,835	107,286	219,079	310,456
Gross profit	71,664	97,665	185,025	253,123
Operating expenses:				
Research and development	26,190	31,671	84,508	93,166
Selling and marketing	24,903	30,303	78,132	85,360
General and administrative	16,217	14,564	37,359	36,572
Amortization of intangible assets	6,295	6,295	18,885	18,885
Restructuring costs (recoveries)	11,008	(1,196)	16,037	(2,396)
Long-lived asset impairments	—	—	(6)	—
Recovery of doubtful accounts, net	(139)	—	(2,990)	(10)
Gain on lease settlement	—	—	(11,648)	—
Total operating expenses	84,474	81,637	220,277	231,577
Income (loss) from operations	(12,810)	16,028	(35,252)	21,546
Interest and other income, net	14,045	19,464	34,504	51,206
Interest expense	(6,148)	(6,931)	(18,016)	(19,227)
Gain on equity investments, net	948	592	215	592
Gain on extinguishment of debt	—	—	7,052	—
Income (loss) before income taxes	(3,965)	29,153	(11,497)	54,117
Provision for income taxes	320	841	989	1,739
Net income (loss)	$ (4,285)	$ 28,312	$ (12,486)	$ 52,378
Basic net income (loss) per common share	$ (0.05)	$ 0.33	$ (0.15)	$ 0.61
Diluted net income (loss) per potential common share	$ (0.05)	$ 0.29	$ (0.15)	$ 0.57
Weighted average basic common shares outstanding	84,197	85,651	83,568	85,268
Weighted average dilutive potential common shares outstanding	84,197	101,568	83,568	96,189

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

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

	October 31, 2006	July 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 220,164	$ 724,271
Investments in marketable debt securities	628,393	1,004,492
Accounts receivable, net	107,172	117,806
Inventories, net	106,085	105,141
Prepaid expenses and other	36,372	43,382
Total current assets	1,098,186	1,995,092
Investments in marketable debt securities	351,407	8,354
Equipment, furniture and fixtures, net	29,427	41,462
Goodwill	232,015	232,015
Other intangible assets, net	91,274	69,486
Other assets	37,404	67,270
Total assets	$ 1,839,713	$ 2,413,679
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 39,277	$ 51,798
Accrued liabilities	79,282	92,862
Restructuring liabilities	8,914	7,164
Unfavorable lease commitments	8,512	8,406
Income taxes payable	5,981	6,676
Deferred revenue	19,637	33,146
Convertible notes payable	—	542,262
Total current liabilities	161,603	742,314
Deferred revenue	21,039	26,978
Restructuring liabilities	26,720	21,188
Unfavorable lease commitments	32,785	26,473
Other obligations	1,678	1,503
Convertible notes payable	842,262	800,000
Total liabilities	1,086,087	1,618,456
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; 140,000,000 shares authorized; 84,891,656 and 85,948,654 shares issued and outstanding	849	859
Additional paid-in capital	5,505,853	5,495,915
Unrealized loss on investments, net	(496)	(279)
Translation adjustment	(580)	(1,650)
Accumulated deficit	(4,752,000)	(4,699,622)
Total stockholders' equity	753,626	795,223
Total liabilities and stockholders' equity	$ 1,839,713	$ 2,413,679

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

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

	Nine Months Ended July 31,	
	2006	2007
Cash flows from operating activities:		
Net income (loss)	$ (12,486)	$ 52,378
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Early extinguishment of debt	(7,052)	—
Amortization of premium (discount) on marketable securities	2,058	(8,093)
Non-cash loss from equity investments	733	—
Depreciation of equipment, furniture and fixtures; and amortization of leasehold improvements	13,173	9,407
Stock compensation	10,953	14,258
Amortization of intangible assets	21,788	21,788
Provision for inventory excess and obsolescence	6,158	8,860
Provision for warranty	10,885	8,910
Other	1,236	1,754
Changes in assets and liabilities:		
Accounts receivable	(16,852)	(10,634)
Inventories	(52,646)	(7,916)
Prepaid expenses and other	1,282	(16,776)
Accounts payable, accrued liabilities and other obligations	(42,744)	3,316
Income taxes payable	70	695
Deferred revenue	(917)	19,448
Net cash provided by (used in) operating activities	(64,361)	97,395
Cash flows from investing activities:		
Additions to equipment, furniture and fixtures	(13,332)	(21,442)
Restricted cash	1,347	(11,904)
Purchases of available for sale marketable debt securities	(403,664)	(564,399)
Maturities of available for sale marketable debt securities	485,916	539,663
Minority equity investments, net	948	411
Net cash provided by (used in) investing activities	71,215	(57,671)
Cash flows from financing activities:		
Proceeds from issuance of convertible senior notes	300,000	500,000
Repurchase of 3.75% convertible notes	(98,410)	—
Debt issuance costs	(7,990)	(11,431)
Purchase of call spread option	(28,457)	(42,500)
Proceeds from exercise of stock options	22,225	18,314
Net cash provided by financing activities	187,368	464,383
Net increase in cash and cash equivalents	194,222	504,107
Cash and cash equivalents at beginning of period	358,012	220,164
Cash and cash equivalents at end of period	$ 552,234	$ 724,271

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

CIENA CORPORATION
NOTES TO CONDENSED 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 that 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, 2006.

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. Fiscal 2007 consists of 53 weeks.

During the first nine months of fiscal 2007, Ciena identified certain immaterial adjustments and recorded expenses of $0.7 million related to its provision for warranty and $0.3 million related to service costs, each of which related to fiscal 2006. Ciena's revenue for the first nine months of fiscal 2007 is understated by $0.8 million due to an equivalent overstatement of revenue during fiscal 2006. Ciena has determined that these out of period adjustments were not material to the current period or any prior period in fiscal 2006 or 2007, and Ciena does not believe that these adjustments will be material to its results for fiscal 2007.

(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 investments represent investments in marketable debt securities that are classified as available-for-sale and are reported at fair value, with unrealized gains and losses 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.

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. 00-2, “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 fiscal September each year. Ciena operates its business and tests its goodwill for impairment as a single reporting unit. Testing is required 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. Impairments of other intangibles assets are determined in accordance SFAS 144.

Minority Equity Investments

Ciena has certain minority equity investments in privately held technology companies that are classified as other assets. 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 markets 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.

Unfavorable Lease Commitments

Ciena has recorded unfavorable lease commitments as a result of several acquisitions. Ciena accounts for unfavorable lease commitments in accordance with SFAS 141 “Business Combinations.” The value of the unfavorable lease commitments are based upon the present value of the assumed lease obligations based upon rental rates and interest rates at the time of the acquisitions. Subject to early termination or settlement, Ciena expects to pay these unfavorable lease commitments over the respective lease terms. See Note 18 below.

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.

A large percentage of Ciena’s revenue is derived from sales to a small number of telecommunications service providers. Recent consolidation among Ciena’s customers has magnified these concentrations. Consequently, Ciena’s accounts receivable is concentrated among these customers. See Notes 5 and 16 below.

Additionally, Ciena’s access to certain raw materials is dependent upon single and sole source suppliers. The inability of any supplier to fulfill Ciena’s supply requirements 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 or 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. Revenue for maintenance services is 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. 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.

Warranty Accruals

Ciena provides for the estimated costs to fulfill customer warranty upon the recognition of the related revenue. The warranty liability is 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 receivable 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 receivable, 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 for doubtful accounts receivable.

Research and Development

Ciena charges all research and development costs to expense as incurred. Types of expense incurred in research and development include employee compensation, prototype, consulting, depreciation, facility costs and information technologies.

Advertising Costs

Ciena expenses all advertising costs as incurred.

Share-Based Compensation Expense

On November 1, 2005, Ciena adopted SFAS 123(R), as interpreted by SAB 107, which requires the measurement and recognition of compensation expense for share-based awards based on estimated fair values. SFAS 123(R) requires companies to estimate the fair value of share-based awards on the date of grant.

Ciena estimates the fair value of option-based awards on the date of grant using the Black-Scholes option-pricing model. Fair value is affected by Ciena's stock price as well as assumptions regarding a number of subjective variables, including expected stock price volatility over the term of the award and projected employee stock option exercise behavior.

Ciena estimates the fair value of each restricted stock unit award based on the fair value of the underlying common stock at the time of grant.

In each case, the fair value is recognized as share-based compensation expense over the relevant vesting or performance period. Ciena only recognizes expense to its consolidated statement of operations for those options or shares that ultimately are expected to vest and, as a result, compensation expense reflects a reduction for estimated forfeitures of share-based awards.

No tax benefits were attributed to the share-based compensation expense because a full 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.

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, and the statement of operations is translated at a monthly average rate. Resulting translation adjustments are recorded directly to a separate component of stockholders' equity. Where the U.S. dollar is the functional currency, re-measurement adjustments are recorded in other income. The net gain (loss) on foreign currency re-measurement and exchange rate changes is immaterial for separate financial statement presentation.

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

Ciena calculates earnings per share (EPS) 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 reports its financial results as a single business segment.

Effects of Recent Accounting Pronouncements

In September 2006, the SEC issued SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB 108 provides interpretative guidance on the process of quantifying financial statement misstatements and is effective for fiscal years ending after November 15, 2006. The adoption of this statement in fiscal 2007 did not have a material impact on Ciena's financial condition, results of operations or cash flows.

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS 155, “Accounting for Certain Hybrid Financial Instruments” which amends SFAS 133, “Accounting for Derivative Instruments and Hedging Activities” and SFAS 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.” SFAS 155 simplifies the accounting for certain derivatives embedded in other financial instruments by allowing them to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 also clarifies and amends certain other provisions of SFAS 133 and SFAS 140. SFAS 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring in fiscal years beginning after September 15, 2006. The adoption of this statement in fiscal 2007 did not have a material impact on Ciena’s financial condition, results of operations or cash flows.

In May 2005, the FASB issued SFAS 154, “Accounting Changes and Error Corrections” which supersedes APB Opinion No. 20, “Accounting Changes” and SFAS 3, “Reporting Accounting Changes in Interim Financial Statements.” SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS 154 also carries forward, without change, the guidance contained in APB 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimate. SFAS 154 requires retrospective application to prior periods’ financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. The correction of an error in previously issued financial statements is not a change in accounting principle. However, the reporting of an error correction involves adjustments to previously issued financial statements similar to those generally applicable to reporting an accounting change retroactively. Therefore, the reporting of a correction of an error by restating previously issued financial statements is also addressed by SFAS 154. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this statement in fiscal 2007 did not have a material impact on Ciena’s financial condition, results of operations or cash flows.

In September 2006, the FASB issued SFAS 157, “Fair Value Measurements.” SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Ciena is currently evaluating the impact the adoption of this statement could have on its financial condition, results of operations and cash flows.

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48, “Accounting for Uncertainty in Income Taxes, an interpretation of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes.” FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The interpretation applies to all tax positions related to income taxes subject to SFAS 109. FIN 48 is effective for fiscal years beginning after December 15, 2006. Differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption should be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. Ciena is currently evaluating the impact the adoption of this statement could have on its financial condition, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115.” SFAS No. 159 permits an entity to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Ciena is currently evaluating the impact the adoption of this statement could have on its financial condition, results of operations and cash flows.

(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, “Accounting for Costs Associated with Exit or Disposal Activities.” The following table displays the activity and balances of the restructuring reserve account for the nine months ending July 31, 2007 (in thousands):

	Workforce reduction	Consolidation of excess facilities	Total
Balance at October 31, 2006	$ —	$ 35,634	$ 35,634
Additional liability recorded	72(a)	—	72
Adjustment to previous estimates	—	(2,468)(b)	(2,468)
Cash payments	(72)	(4,814)	(4,886)
Balance at July 31, 2007	$ —	$ 28,352	$ 28,352
Current restructuring liabilities	$ —	$ 7,164	$ 7,164
Non-current restructuring liabilities	$ —	$ 21,188	$ 21,188

(a) During the first quarter of fiscal 2007, Ciena recorded a charge of $0.1 million related to other costs associated with a previous workforce reduction.

(b) During the first quarter of fiscal 2007, Ciena recorded an adjustment of $0.5 million related to costs associated with previously restructured facilities. During the second quarter of fiscal 2007, Ciena recorded an adjustment of $0.8 million related to its return to use of a facility that had been previously restructured. During the third quarter of fiscal 2007, Ciena recorded an adjustment of $1.2 million primarily related to its return to use of a facility that had been previously restructured.

The following table displays the activity and balances of the restructuring reserve account for the nine months ending July 31, 2006 (in thousands):

	Workforce reduction	Consolidation of excess facilities	Total
Balance at October 31, 2005	$ 270	$ 69,507	$ 69,777
Additional reserve recorded	4,523(a)	1,782(a)	6,305
Adjustments to previous estimates	—	9,732(b)	9,732
Lease settlement	—	(11,648)(c)	(11,648)
Cash payments	(4,581)	(31,954)	(36,535)
Balance at July 31, 2006	$ 212	$ 37,419	$ 37,631
Current restructuring liabilities	$ 212	$ 9,201	$ 9,413
Non-current restructuring liabilities	$ —	$ 28,218	$ 28,218

(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 in Kanata, Ontario and a charge of $1.5 million related to a workforce reduction of 62 employees. During the second quarter of fiscal 2006, Ciena recorded a charge of $0.7 million related to the closure of its Shrewsbury, NJ facility and a charge of $2.5 million related to a workforce reduction of 86 employees. During the third quarter of fiscal 2006, Ciena recorded a charge of $0.5 million related to a workforce reduction of 7 employees and additional employee costs related to the closure of its Shrewsbury, NJ facility in the second quarter of fiscal 2006. Ciena also recorded a charge of $0.4 million related to the closure of its facility in Beijing, China during the third quarter of fiscal 2006.

(b) During the first quarter of fiscal 2006, Ciena recorded a credit adjustment of $0.2 million related to costs associated with previously restructured facilities. During the second quarter of fiscal 2006, Ciena recorded a credit adjustment of $0.2 million related to costs associated with previously restructured facilities. During the third quarter of fiscal 2006, primarily due to changes in market conditions, Ciena recorded an adjustment of $10.1 million related to costs associated with previously restructured facilities, $10.0 million of which was related to its former facilities in San Jose, CA.

(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. During the second quarter of fiscal 2006, Ciena recorded a gain of $5.6 million related to the buy-out of the lease of its former Cupertino, CA facility, which Ciena had previously restructured.

(4) MARKETABLE DEBT SECURITIES

Marketable debt securities are comprised of the following (in thousands):

	July 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds	$ 334,964	$ 87	$ 202	$ 334,849
Asset backed obligations	155,029	41	130	154,940
Commercial paper	455,440	—	4	455,436
US government obligations	42,643	16	38	42,621
Certificate of deposit	25,000	—	—	25,000
	$ 1,013,076	$ 144	$ 374	$ 1,012,846
Short-term	1,004,712	144	364	1,004,492
Long-term	8,364	—	10	8,354
	$ 1,013,076	$ 144	$ 374	$ 1,012,846

	October 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds	$ 468,152	$ 437	$ 525	$ 468,064
Asset backed obligations	195,728	142	305	195,565
Commercial paper	152,768	—	—	152,768
US government obligations	163,643	84	324	163,403
	$ 980,291	$ 663	$ 1,154	$ 979,800
Short-term	629,269	66	942	628,393
Long-term	351,022	597	212	351,407
	$ 980,291	$ 663	$ 1,154	$ 979,800

The gross unrealized losses, related to marketable debt investments, were primarily due to changes in interest rates. Ciena's management has determined that the gross unrealized losses on its marketable debt investments at July 31, 2007 and October 31, 2006 are temporary in nature because Ciena has the ability and intent to hold these investments until a recovery of fair value, which may be maturity. The following table displays gross unrealized losses at July 31, 2007 and October 31, 2006 (in thousands):

	July 31, 2007					
	Unrealized Losses Less Than 12 Months		Unrealized Losses 12 Months or Greater		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Corporate bonds	$ 154	$ 198,909	$ 48	$ 29,396	$ 202	$ 228,305
Asset backed obligations	96	86,142	34	25,981	130	112,123
Commercial paper	4	11,291	—	—	4	11,291
US government obligations	4	11,207	34	16,483	38	27,690
	$ 258	$ 307,549	$ 116	$ 71,860	$ 374	$ 379,409

	October 31, 2006					
	Unrealized Losses Less Than 12 Months		Unrealized Losses 12 Months or Greater		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Corporate bonds	$ 400	$ 196,947	$ 125	$ 26,687	$ 525	$ 223,634
Asset backed obligations	153	92,869	152	34,828	305	127,697
US government obligations	112	38,692	212	40,839	324	79,531
	$ 665	$ 328,508	$ 489	$ 102,354	$ 1,154	$ 430,862

The following table summarizes maturities of investments at July 31, 2007 (in thousands):

	Amortized Cost	Estimated Fair Value
Less than one year	$ 1,004,712	$ 1,004,492
Due in 1-2 years	8,364	8,354
	$ 1,013,076	$ 1,012,846

(5) ACCOUNTS RECEIVABLE

As of July 31, 2007, trade accounts receivable, net of allowance for doubtful accounts receivable, included five customers that accounted for 23.7%, 14.7%, 11.2%, 11.1% and 11.1% of net trade accounts receivable, respectively. As of October 31, 2006, the trade accounts receivable, net of allowance for doubtful accounts receivable, included two customers that accounted for 25.4% and 21.8% of the net trade accounts receivable, respectively.

Ciena's allowance for doubtful accounts receivable as of October 31, 2006 and July 31, 2007 was $0.1 million.

(6) INVENTORIES

Inventories are comprised of the following (in thousands):

	October 31, 2006	July 31, 2007
Raw materials	$ 29,627	$ 31,231
Work-in-process	9,156	6,586
Finished goods	89,628	91,455
	128,411	129,272
Provision for inventory excess and obsolescence	(22,326)	(24,131)
	$ 106,085	$ 105,141

Ciena writes down its inventory for estimated obsolescence or unmarketable inventory by the difference between the cost of inventory and the estimated net realizable value based on assumptions about future demand and market conditions. During the first nine months of fiscal 2007, Ciena recorded a provision for inventory reserves of $8.9 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 allowance for excess inventory and obsolete inventory during the first nine months of fiscal 2007 (in thousands):

	Inventory Allowance
Balance as of October 31, 2006	$ 22,326
Provision for excess inventory, net	8,860
Actual inventory scrapped	(7,055)
Balance as of July 31, 2007	$ 24,131

During the first nine months of fiscal 2006, Ciena recorded a provision for inventory reserves of $6.2 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 first nine months of fiscal 2006 (in thousands):

	Inventory Allowance
Reserve balance as of October 31, 2005	$ 22,595
Provision for excess inventory, net	6,158
Actual inventory scrapped	(8,210)
Reserve balance as of July 31, 2006	$ 20,543

(7) PREPAID EXPENSES AND OTHER

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

	October 31, 2006	July 31, 2007
Interest receivable	$ 8,547	$ 7,212
Prepaid VAT and other taxes	9,467	14,064
Deferred deployment expenses	1,948	5,361
Prepaid expenses	6,497	9,102
Restricted cash	6,990	2,977
Other non-trade receivables	2,923	4,666
	$ 36,372	$ 43,382

(8) EQUIPMENT, FURNITURE AND FIXTURES

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

	October 31, 2006	July 31, 2007
Equipment, furniture and fixtures	$ 253,953	$ 270,056
Leasehold improvements	36,203	36,833
	290,156	306,889
Accumulated depreciation and amortization	(260,729)	(265,427)
	$ 29,427	$ 41,462

(9) OTHER INTANGIBLE ASSETS

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

	October 31, 2006			July 31, 2007		
	Gross Intangible	Accumulated Amortization	Net Intangible	Gross Intangible	Accumulated Amortization	Net Intangible
Developed technology	$ 139,983	$ (87,577)	$ 52,406	$ 139,983	$ (100,384)	$ 39,599
Patents and licenses	47,370	(25,463)	21,907	47,370	(30,146)	17,224
Customer relationships, covenants not to compete, outstanding purchase orders and contracts	45,981	(29,020)	16,961	45,981	(33,318)	12,663
	$ 233,334		$ 91,274	$ 233,334		$ 69,486

The aggregate amortization expense of other intangible assets was $21.8 million for the first nine months of fiscal 2006 and 2007. The following table represents the expected future amortization of other intangible assets as follows (in thousands):

2007 (remaining three months)	$ 7,262
2008	27,840
2009	19,254
2010	14,500
2011	630
	$ 69,486

(10) OTHER BALANCE SHEET DETAILS

Other long-term assets (in thousands):

	October 31, 2006	July 31, 2007
Maintenance spares inventory, net	$ 14,724	$ 19,283
Deferred debt issuance costs	10,306	19,104
Investments in privately held companies	6,489	6,671
Restricted cash	3,227	19,144
Other	2,658	3,068
	$ 37,404	$ 67,270

Deferred debt issuance costs are amortized using the straight line method which approximates the effect of the effective interest rate method on the maturity of the related debt. Amortization of debt issuance cost, which is included in interest expense, was $2.2 million and $2.8 million during the first nine months of fiscal 2006 and fiscal 2007, respectively.

Accrued liabilities (in thousands):

	October 31, 2006	July 31, 2007
Warranty	$ 31,751	$ 32,535
Accrued compensation, payroll related tax and benefits	24,102	31,225
Accrued interest payable	5,502	10,944
Other	17,927	18,158
	$ 79,282	$ 92,862

The following table summarizes the activity in Ciena's accrued warranty for the first nine months of fiscal 2006 and 2007 (in thousands):

Nine months ended July 31,	Beginning Balance	Provisions	Settlements	Balance at end of period
2006	$27,044	10,885	(7,819)	$30,110
2007	$31,751	8,910	(8,126)	$32,535

Deferred revenue (in thousands):

	October 31, 2006	July 31, 2007
Products	$ 4,276	$ 14,231
Services	36,400	45,893
	40,676	60,124
Less current portion	(19,637)	(33,146)
Long-term deferred revenue	$ 21,039	$ 26,978

(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 1 and August 1 of each year. 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 1.3687 shares per each $1,000 principal amount of notes, subject to adjustment in certain circumstances. Prior to maturity, Ciena has the option to redeem all or a portion of the notes that have not been previously converted at 100.536% of the principal amount. The $542.3 million in aggregate principal amount remaining outstanding on the 3.75% convertible notes is classified as a current liability on Ciena's balance sheet at July 31, 2007.

At July 27, 2007, the fair value of the outstanding $542.3 million in aggregate principal amount of 3.75% convertible notes was $535.1 million, based on the quoted market price for the notes.

0.25% Convertible Senior Notes due May 1, 2013

On April 10, 2006, Ciena completed a public offering of 0.25% Convertible Senior Notes due May 1, 2013, in aggregate principal amount of $300.0 million. Interest is payable on May 1 and November 1 of each year. The notes are senior unsecured obligations of Ciena and rank equally with all of Ciena's other existing and future senior unsecured debt.

At the election of the holder, notes may be converted prior to maturity into shares of Ciena common stock at the initial conversion rate of 25.3001 shares per $1,000 in principal amount, which is equivalent to an initial conversion price of $39.5255 per share. The notes may not be redeemed by Ciena prior to May 5, 2009. At any time on or after May 5, 2009, if the closing sale price of Ciena's common stock for at least 20 trading days in any 30 consecutive trading day period ending on the date one day prior to the date of the notice of redemption exceeds 130% of the conversion price, Ciena may redeem the notes in whole or in part, at a redemption price in cash equal to the principal amount to be redeemed, plus accrued and unpaid interest.

If Ciena undergoes a "fundamental change" (as that term is defined in the indenture), holders of notes will have the right, subject to certain exemptions, to require Ciena to purchase for cash any or all of their notes at a price equal to the principal amount, plus accrued and unpaid interest. If the holder elects to convert his or her notes in connection with a specified fundamental change, in certain circumstances, Ciena will be required to increase the applicable conversion rate, depending on the price paid per share for Ciena common stock and the effective date of the fundamental change transaction.

At July 27, 2007, the fair value of the outstanding $300.0 million in aggregate principal amount of 0.25% convertible senior notes was $314.3 million, based on the quoted market price for the notes.

0.875% Convertible Senior Notes due June 15, 2017

On June 11, 2007, Ciena completed a public offering of 0.875% Convertible Senior Notes due June 15, 2017, in aggregate principal amount of $500.0 million. Interest is payable on June 15 and December 15 of each year, beginning on December 15, 2007. The notes are senior unsecured obligations of Ciena and rank equally with all of Ciena's other existing and future senior unsecured debt.

At the election of the holder, notes may be converted prior to maturity into shares of Ciena common stock at the initial conversion rate of 26.2154 shares per $1,000 in principal amount, which is equivalent to an initial conversion price of approximately $38.15 per share. The notes are not redeemable by Ciena prior to maturity.

If Ciena undergoes a "fundamental change" (as that term is defined in the indenture), holders of notes will have the right, subject to certain exemptions, to require Ciena to purchase for cash any or all of their notes at a price equal to the principal amount, plus accrued and unpaid interest. If the holder elects to convert his or her notes in connection with a specified fundamental change, in certain circumstances, Ciena will be required to increase the applicable conversion rate, depending on the price paid per share for Ciena common stock and the effective date of the fundamental change transaction.

Ciena used approximately $42.5 million of the net proceeds of this offering to purchase a call spread option on its common stock that is intended to limit exposure to potential dilution from conversion of the notes. At July 27, 2007, the fair value of the outstanding $500.0 million in aggregate principal amount of 0.875% convertible senior notes was $529.7 million, based on the quoted market price for the notes.

(12) INCOME (LOSS) PER SHARE CALCULATION

The following table (in thousands except per share amounts) is a reconciliation of the numerator and denominator of the basic net income (loss) per common share ("Basic EPS") and the diluted net income (loss) per dilutive potential common share ("Diluted EPS"). Basic EPS is computed using the weighted average number of common shares outstanding. Diluted EPS is computed using the weighted average number of (i) common shares outstanding, (ii) shares issuable upon vesting of restricted stock units, (iii) shares issuable upon exercise of outstanding stock options, employee stock purchase plan options and warrants using the treasury stock method; and (iv) shares underlying the 0.25% and 0.875% convertible senior notes. Because they were issued on June 11, 2007, Diluted EPS reflects only a portion of the shares underlying the 0.875% convertible notes for the third quarter and nine months ended July 31, 2007.

Numerator

	Quarter Ended July 31,		Nine Months Ended July 31,	
	2006	2007	2006	2007
Net income (loss)	$ (4,285)	$ 28,312	$ (12,486)	$ 52,378
Add: Interest expense associated with 0.25% convertible senior notes	—	469	—	1,408
Add: Interest expense associated with 0.875% convertible senior notes	—	783	—	783
Net income (loss) used to calculate Diluted EPS	$ (4,285)	$ 29,564	$ (12,486)	$ 54,569

Denominator

	Quarter Ended July 31,		Nine Months Ended July 31,	
	2006	2007	2006	2007
Basic weighted average shares outstanding	84,197	85,651	83,568	85,268
Add: Shares underlying outstanding stock options, employees stock purchase plan options, warrants and restricted stock units	—	1,482	—	1,066
Add: Shares underlying 0.25% convertible senior notes	—	7,590	—	7,590
Add: Shares underlying 0.875% convertible senior notes	—	6,845	—	2,265
Dilutive weighted average shares outstanding	84,197	101,568	83,568	96,189

EPS

	Quarter Ended July 31,		Nine Months Ended July 31,	
	2006	2007	2006	2007
Basic EPS	$ (0.05)	$ 0.33	$ (0.15)	$ 0.61
Diluted EPS	$ (0.05)	$ 0.29	$ (0.15)	$ 0.57

Explanation of Shares Excluded due to Anti-Dilutive Effect

For the quarter and nine months ended July 31, 2006, approximately 13.6 million and 9.1 million shares, respectively, representing the weighted average number of shares underlying outstanding stock options, restricted stock units, warrants and convertible notes, are considered anti-dilutive because Ciena incurred net losses during these periods.

For the quarter and nine months ended July 31, 2007, approximately 3.1 million shares and 4.2 million shares, respectively, representing the weighted average number of shares underlying outstanding stock options, employee stock purchase plan options, restricted stock units, and warrants are considered anti-dilutive because the exercise price of these equity awards is greater than the average per share closing price on the NASDAQ Stock Market during this period. In addition, for each of the quarter and nine months ended July 31, 2007, approximately 0.7 million shares, representing the weighted average number of shares issuable upon conversion of Ciena's 3.75% convertible notes, are considered anti-dilutive pursuant to SFAS 128 because the related interest expense on a per common share "if converted" basis exceeds Basic EPS for the periods.

The following table (in thousands except per share amounts) summarizes the shares excluded from the calculation of the denominator for Basic and Diluted EPS due to their anti-dilutive effect:

Shares excluded from EPS Denominator due to anti-dilutive effect

	Quarter Ended July 31,		Nine Months Ended July 31,	
	2006	2007	2006	2007
Shares underlying outstanding stock options, employee stock purchase plan options, warrants and restricted stock units	5,298	3,087	5,309	4,114
Shares underlying 3.75% convertible notes	742	742	760	742
Shares underlying 0.25% convertible senior notes	7,590	—	3,069	—
Total excluded due to anti-dilutive effect	13,630	3,829	9,138	4,856

(13) STOCKHOLDERS' EQUITY

Call Spread Option

Ciena holds two call spread options on its common stock relating to the shares issuable upon conversion of two issues of its convertible notes. These call spread options are designed to mitigate exposure to potential dilution from the conversion of the notes. Ciena purchased a call spread option relating to the 0.25% Convertible Senior Notes due May 1, 2013 for $28.5 million during the second quarter of fiscal 2006. Ciena purchased a call spread option relating to the 0.875% Convertible Senior Notes due June 15, 2017 for $42.5 million during the third quarter of fiscal 2007. In each case, the call spread options were purchased at the time of the notes offering from an affiliate of the underwriter. The cost of each call spread option was recorded as a reduction in additional paid in capital.

Each call spread option is exercisable, upon maturity of the relevant issue of convertible notes, for such number of shares of Ciena common stock issuable upon conversion of that series of notes in full. Each call spread option has a "lower strike price" equal to the conversion price for the notes and a "higher strike price" that serves to cap the amount of dilution protection provided. At its election, Ciena can exercise the call spread options on a net cash basis or a net share basis. The value of the consideration of a net share settlement will be equal to the value upon a net cash settlement and can range from $0, if the market price per share of Ciena common stock upon exercise is equal to or below the lower strike price, to approximately $45.7 million (in the case of the April 2006 call spread option) or approximately $76.1 million (in the case of the June 2007 call spread), if the market price per share of Ciena common stock upon exercise is at or above the higher strike price. If the market price on the date of exercise is between the lower strike price and the higher strike price, in lieu of a net settlement, Ciena may elect to receive the full number of shares underlying the call spread option by paying the aggregate option exercise price, which is equal to the original principal outstanding on that series of notes. Should there be an early unwind of the call spread option, the amount of cash or shares to be received by Ciena will depend upon the existing overall market conditions, and on Ciena's stock price, the volatility of Ciena's stock and the remaining term of the call spread option. The number of shares subject to the call spread options and the lower and higher strike prices are subject to customary adjustments.

(14) SHARE-BASED COMPENSATION EXPENSE

On November 1, 2005, Ciena adopted SFAS 123(R), which requires the measurement and recognition of compensation expense for share-based awards based on estimated fair values. Ciena currently grants share-based awards under its 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 is a shareholder approved plan that 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 Compensation Committee of the Board of Directors has broad discretion to establish the terms and conditions for equity awards, including number of shares, vesting conditions and any 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 Ciena shares issued and outstanding on January 1 of each year, unless the Compensation Committee reduces the amount of the increase in any year. No additional shares were added to the Plan as a result of this provision in 2005, 2006 or 2007. In addition to the evergreen provision, any shares subject to awards under the ONI 1997 Stock Plan, ONI 1998 Equity Incentive Plan, or ONI 1999 Equity Incentive Plan that are forfeited or cancelled are available for issuance under the 2000 Plan. As of July 31, 2007, there were 4.1 million shares authorized and available for issuance under the 2000 Plan.

Stock Options

Outstanding stock option awards to employees are generally subject to time-based vesting restrictions and vest incrementally over a four-year period, with awards subject to 12 months of accelerated vesting upon a change in control. The fair value of each option is recognized as stock-based compensation expense on a straight-line basis over the requisite service period. 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:

	Quarter Ended July 31,		Nine Months Ended July 31,	
	2006	2007	2006	2007
Expected volatility	61.5%	55.8%	61.5%	55.8%
Risk-free interest rate	5.0% - 5.1%	4.8% - 5.1%	4.3% - 5.1%	4.4% - 5.1%
Expected life (years)	6.0 - 6.1	6.0 - 6.1	5.5 - 6.1	6.0 - 6.1
Expected dividend yield	0.0%	0.0%	0.0%	0.0%

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 for U.S. Treasury bonds 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 calculates the expected life using the simplified method 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; and options are non-transferable and non-hedgeable.

A dividend yield assumption of 0% is used based on Ciena's lack of dividend history and because Ciena does not have expect to make dividend payments in the foreseeable future.

The following table is a summary of Ciena's stock option activity during fiscal 2007 (shares in thousands):

	Options Outstanding	Weighted Average Exercise Price
Balance as of October 31, 2006	7,110	$ 48.52
Granted	515	28.21
Exercised	(796)	21.52
Canceled	(362)	39.18
Balance as of July 31, 2007	6,467	$ 50.75

The total intrinsic value of options exercised during the first nine months of fiscal 2007 was $9.1 million.

The following table summarizes information with respect to stock options outstanding at July 31, 2007, based on Ciena's closing stock price on July 27, 2007 of $36.21 per share (shares and intrinsic value in thousands):

Range of Exercise Price			Options Outstanding at July 31, 2007 Number	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value	Vested Options at July 31, 2007 Number	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value
$ 0.01	—	$ 16.52	758	7.55	$ 14.65	$ 16,345	340	6.99	$ 12.73	$ 7,971
$16.53	—	$ 17.43	714	7.81	17.20	13,565	313	7.62	17.12	5,977
$17.44	—	$ 22.96	658	7.03	21.77	9,504	617	6.91	21.80	8,899
$22.97	—	$ 31.36	937	8.11	27.72	7,959	442	6.68	27.53	3,834
$31.37	—	$ 31.71	880	5.43	31.70	3,969	860	5.35	31.71	3,870
$31.72	—	$ 46.97	717	6.05	40.53	197	648	5.69	41.09	106
$46.98	—	$ 83.13	768	4.68	60.51	—	768	4.68	60.51	—
$83.14	—	$ 1,046.50	1,035	3.50	155.63	—	1,035	3.50	155.63	—
$ 0.01	—	$ 1,046.50	6,467	6.16	$ 50.75	$ 51,539	5,023	5.47	$ 59.08	$ 30,657

As of July 31, 2007, total unrecognized compensation expense related to unvested stock options was $12.9 million. This expense is expected to be recognized over a weighted-average period of 1.7 years.

Restricted Stock Units

A restricted stock unit is a stock award that entitles the holder to receive shares of Ciena common stock as the unit vests. Ciena's outstanding restricted stock unit awards are subject to time-based vesting conditions or performance-based vesting conditions.

Awards subject to time-based conditions typically vest in increments over a four-year period. Ciena calculates the fair value of these awards based on the fair value of the underlying common stock at the time of grant and recognizes the expense, net of estimated forfeitures, ratably over the vesting period on a straight-line basis.

Awards with performance-based vesting conditions require the achievement of certain company-based, financial or other performance criteria or targets as a condition to the vesting, or acceleration of vesting, of such awards. Ciena determines the fair value of these awards based on the fair value of the underlying common stock at the time of grant. The fair value, net of estimated forfeitures, is recognized as share-based expense over the performance period, using graded vesting and based upon Ciena's determination of whether it is probable that the performance targets will be achieved. At each reporting period, Ciena reassess the probability of achieving the performance targets and the performance period required to meet those targets. Determining whether the performance targets will be achieved involves judgment, and the estimate of expense is revised periodically based on the probability of achieving the performance targets. Revisions are reflected in the period in which the estimate is changed. If any performance goals are not met, no compensation cost is ultimately recognized and, to the extent previously recognized, compensation cost is reversed.

The following table is a summary of Ciena's restricted stock unit activity during fiscal 2007, based on Ciena's closing stock price on July 27, 2007 of $36.21 per share (shares and fair value in thousands):

	Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value Per Share	Aggregate Fair Value
Balance as of October 31, 2006	162	$ 22.99	$ 3,829
Granted	1,184		
Converted	(129)		
Canceled or forfeited	(52)		
Balance as of July 31, 2007	1,165	$ 27.36	$ 42,201

The weighted average fair value for restricted stock units granted during the three months and nine months ended July 31, 2006 was $30.66 and $19.25, respectively. The weighted average fair value for restricted stock unit award granted during the three months and nine months ended July 31, 2007 was $35.69 and $27.86, respectively. The total fair value of restricted stock units that vested and were converted into common stock during the first nine months of fiscal 2007 was $4.5 million.

As of July 31, 2007, total unrecognized compensation expense related to restricted stock units was $26.4 million. This expense is expected to be recognized over a weighted-average period of 1.9 years.

2003 Employee Stock Purchase Plan

In March 2003, Ciena shareholders approved the ESPP, which has a ten-year term and originally authorized the issuance of 2.9 million shares. At the 2005 annual meeting, Ciena shareholders approved an amendment increasing the number of shares available to 3.6 million and adopting an "evergreen" provision that on December 31 of each year provides for an increase in the number of shares available by up to 0.6 million shares, provided that the total number of shares available shall not exceed 3.6 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 3.4 million.

Under the ESPP, eligible employees may enroll in an offer period during certain open enrollment periods. New offer periods begin March 16 and September 16 of each year. Prior to the offer period commencing September 15, 2006, (i) each offer period consisted of four, six-month purchase periods during which employee payroll deductions were accumulated and used to purchase shares of common stock; and (ii) the purchase price of the shares was 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 was lower. In addition, if the fair market value on the purchase date was less than the fair market value on the first day of an offer period, then participants automatically commenced a new offer period.

On May 30, 2006, the Compensation Committee amended the ESPP, effective September 15, 2006, to shorten the offer period under the ESPP to six months. As a result of this change, the offer period and any purchase period will be the same six-month period. Under the amended ESPP, the applicable purchase price equals 95% of the fair market value of Ciena common stock on the last day of each purchase period. Employees enrolled with offer periods commenced prior to September 15, 2006, will be permitted to complete the remaining purchase periods in their current offer period. These amendments were intended to enable the ESPP to be considered a non-compensatory plan under FAS 123(R) for future offering periods.

The amendments to the ESPP for offer periods on or after September 15, 2006 described above were intended to enable the ESPP to be considered a non-compensatory plan under FAS 123(R) for future offering periods. For offer periods that commenced prior to September 15, 2006, however, fair value is determined as of the grant date, using the graded vesting approach. Under the graded vesting approach, the 24-month ESPP offer period, which consists of four, six-month purchase periods, is treated for valuation purpose as four separate option tranches with individual lives of six, 12, 18 and 24 months, each commencing on the initial grant date. Each tranche is expensed straight-line over its individual life.

The following table is a summary of ESPP activity during fiscal 2007 (shares and fair value in thousands):

	ESPP shares available for issuance	Intrinisic value at exercise date
Balance as of October 31, 2006	2,976	
Evergreen provision	571	
Issued	(119)	$ 1,137
Balance as of July 31, 2007	3,428	

As of July 31, 2007, unrecognized compensation expense related to the ESPP was $0.1 million. This expense is expected to be recognized over a weighted-average period of 0.6 years.

Share-Based Compensation Recognized under SFAS 123(R)

The following table summarizes share-based compensation expense under SFAS 123(R) for the quarters and nine months ended July 31, 2006 and July 31, 2007, which was allocated as follows (in thousands):

	Quarter Ended July 31,		Nine Months Ended July 31,	
	2006	2007	2006	2007
Product costs	$ 361	$ 131	$ 871	$ 714
Service costs	211	225	604	703
Share-based compensation expense included in cost of sales	572	356	1,475	1,417
Research and development	1,061	985	4,119	2,813
Sales and marketing	715	1,898	2,709	4,804
General and administrative	594	1,724	2,422	4,616
Share-based compensation expense included in operating expense	2,370	4,607	9,250	12,233
Stock-based compensation expense capitalized in inventory, net	(107)	358	228	608
Total share-based compensation	$ 2,835	$ 5,321	$ 10,953	$ 14,258

Because share-based compensation expense is recognized only for those awards that are ultimately expected to vest, these amounts reflect a reduction for estimated forfeitures. Ciena estimates forfeitures at the time of grant and revises those estimates in subsequent periods based upon new or changed information. Ciena relies upon historical experience in establishing forfeiture rates. If actual forfeitures differ from current estimates, total unrecognized share-based compensation expense will be adjusted for future changes in estimated forfeitures.

(15) COMPREHENSIVE INCOME (LOSS)

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

	Quarter Ended July 31,		Nine Months Ended July 31,	
	2006	2007	2006	2007
Net income (loss)	$ (4,285)	$ 28,312	$ (12,486)	$ 52,378
Change in unrealized loss on available-for-sale securities, net	464	(47)	2,271	217
Change in accumulated translation adjustments	27	(188)	—	(1,070)
Total comprehensive income (loss)	$ (3,794)	$ 28,077	$ (10,215)	$ 51,525

(16) ENTITY WIDE DISCLOSURES

The following table reflects Ciena’s geographic distribution of revenue. Revenue attributable to geographic regions outside of the United States is reflected as International revenue, with any country accounting for greater than 10% of total revenue in the period specifically identified. For the periods below, Ciena’s geographic distribution of revenue was as follows (in thousands, except percentage data):

	Quarter Ended July 31,				Nine Months Ended July 31,			
	2006	%*	2007	%*	2006	%*	2007	%*
United States	$ 116,419	76.3	$ 145,417	71.0	$ 314,468	77.8	$ 404,683	71.8
United Kingdom	n/a	—	21,940	10.7	n/a	—	71,136	12.6
International	36,080	23.7	37,594	18.3	89,636	22.2	87,760	15.6
Total	$ 152,499	100.0	$ 204,951	100.0	$ 404,104	100.0	$ 563,579	100.0

* Denotes % of Total revenue

n/a Denotes less than 10% for period

The following table reflects Ciena's geographic distribution of equipment, furniture and fixtures. Equipment, furniture and fixtures attributable to geographic regions outside of the United States are reflected as International, with any country attributable for greater than 10% of total equipment, furniture and fixtures specifically identified. For the periods below, Ciena's geographic distribution of equipment, furniture and fixtures was as follows (in thousands, except percentage data):

	October 31,		July 31,	
	2006	%*	2007	%*
United States	$ 21,934	74.5	$ 32,680	78.8
International	7,493	25.5	8,782	21.2
Total	$ 29,427	100.0	$ 41,462	100.0

* Denotes % of Total Equipment, Furniture and Fixtures

For the periods below, Ciena's distribution of revenue was as follows (in thousands, except percentage data):

	Quarter Ended July 31,				Nine Months Ended July 31,			
	2006	%*	2007	%*	2006	%*	2007	%*
Converged Ethernet infrastructure (1)	$ 117,121	76.8	$ 166,969	81.5	$ 292,863	72.4	$ 464,267	82.4
Ethernet access (2)	20,688	13.6	15,174	7.4	68,095	16.9	37,370	6.6
Total Product	137,809	90.4	182,143	88.9	360,958	89.3	501,637	89.0
Global network services	14,690	9.6	22,808	11.1	43,146	10.7	61,942	11.0
Total	$ 152,499	100.0	$ 204,951	100.0	$ 404,104	100.0	$ 563,579	100.0

* Denotes % of total revenue

(1) Converged Ethernet infrastructure incorporates all products previously in our optical networking and data networking product groups and related software.

(2) Ethernet access includes all products and related software previously in our broadband access product group, as well as our recently announced CN 3000 Ethernet Access series.

For the periods below, customers accounting for at least 10% of Ciena's revenue were as follows (in thousands, except percentage data):

	Quarter Ended July 31,				Nine Months Ended July 31,			
	2006	%*	2007	%*	2006	%*	2007	%*
Company A	41,494	27.3	24,399	12.0	52,056	12.9	81,605	14.4
Company B	18,650	12.2	21,375	10.4	60,244	14.9	58,463	10.4
Company C	18,650	12.2	53,584	26.1	50,778	12.6	125,059	22.2
Total	$ 78,794	51.7	$ 99,358	48.5	$ 163,078	40.4	$ 265,127	47.0

* Denotes % of total revenue

(17) CONTINGENCIES

Foreign Tax Contingencies

Ciena has received assessment notices totaling $6.6 million from the Mexican tax authorities asserting deficiencies in payments between 2001 and 2005 related primarily to income taxes and import taxes and duties. Ciena has filed judicial petitions appealing these assessments. As of July 31, 2007 and October 31, 2006, Ciena had accrued liabilities of $0.8 million and $0.7 million, respectively, related to these contingencies, which are reported as a component of other current accrued liabilities. As of July 31, 2007, Ciena estimates that it could be exposed to possible losses of up to $5.8 million for which it has not accrued liabilities. Ciena has not accrued these liabilities because it does not deem such losses probable. Ciena continues to evaluate the likelihood of probable and reasonably possible losses, if any, related to these assessments. As a result, future increases or decreases to accrued liabilities may be necessary and will be recorded in the period when such amounts are probable and estimable.

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 September 11, 2006, the PTO issued a Notice of Intent to Issue a Reexamination Certificate and Statement of Reasons for Patentability/Confirmation, stating its intent to confirm certain claims of the '016 Patent. On June 22, 2007, in response to the plaintiffs' most recent status report, the district court issued an order lifting the stay of the case. The district court subsequently scheduled a final pretrial conference for January 14, 2008, and the parties are currently negotiating a case management schedule. Separately, on July 2, 2007, defendant JDS Uniphase filed a request for *Ex Parte* reexamination of the '016 Patent with the PTO and a request that the district court reinstate the stay of the case on the basis of its reexamination request. On August 21, 2007, the PTO vacated the filing date assigned to JDS Uniphase's request for failure to comply with certain substantive requirements and provided a 30 day cure period. Ciena believes that it has valid defenses to the lawsuit and intends to defend it vigorously.

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 would be dismissed, the insurers would agree to guarantee a recovery by the plaintiffs from the underwriter defendants of at least $1 billion, and the issuer defendants would agree to assign or surrender to the plaintiffs certain claims the issuers may have against the underwriters. The settlement agreement did not require Ciena to pay any amount toward the settlement or to make any other payments. In October 2004, the district court certified a class with respect to the Section 10(b) claims in six "focus cases" selected out of all of the consolidated cases, which cases did not include Ciena, and which decision was appealed by the underwriter defendants to the U.S. Court of Appeals for the Second Circuit. On February 15, 2005, the district court granted the motion filed by the plaintiffs and issuer defendants for preliminary approval of the settlement agreement, subject to certain modifications to the proposed bar order, and on August 31, 2005, the district court issued a preliminary order approving the revised stipulated settlement agreement. On December 5, 2006, the U.S. Court of Appeals for the Second Circuit vacated the district court's grant of class certification in the six focus cases. On April 6, 2007, the Second Circuit denied plaintiffs' petition for rehearing. In light of the Second Circuit's decision, the issuer defendants have informed the district court that the settlement cannot be approved as currently constituted because the defined settlement class cannot be certified. It is unclear whether or not the issuer defendants will be able to renegotiate a settlement with the plaintiffs and insurers that complies with the Second Circuit's mandate. Due to the inherent uncertainties of litigation, Ciena cannot accurately predict the ultimate outcome of the matter at this time.

On April 9, 2007, QPSX Developments 5 Pty. Ltd. (a subsidiary of Ipernica Ltd.) filed a complaint in the United States District Court for the Eastern District of Texas against Ciena and several other defendants, alleging that certain of the parties' products infringe U.S. Patent No. 5,689,499. After successful settlement negotiations, Ciena entered into an agreement with QPSX pursuant to which, in exchange for a one-time payment of approximately $2.3 million, Ciena obtained a fully paid-up license to all of the patents held by QPSX and its affiliates and a release from all claims for damages relating to such patents. On August 23, 2007, the district court granted the parties' joint motion to dismiss the case against Ciena with prejudice. The settlement amount was recorded as an expense during the third quarter of fiscal 2007.

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 its results of operations, financial position or cash flows.

(18) SUBSEQUENT EVENTS

Following the end of the third quarter of fiscal 2007, on August 15, 2007, Ciena paid $53 million in connection with the transfer and settlement of its lease obligation related to previously restructured facilities in San Jose, CA. This transaction resulted in a gain on lease settlement of approximately $5.0 million by eliminating Ciena's remaining unfavorable lease commitment balance of $34.9 million and reducing its restructuring liabilities by $23.5 million, offset by approximately $0.4 million of other expenses.

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. Our "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," "expect," "plan," "anticipate," "believe," "estimate," "predict," "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 10, 2007, 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 is a supplier of communications networking equipment, software and services that support the delivery and transport of voice, video and data services. Our products are used in communications networks operated by telecommunications service providers, cable operators, governments and enterprises around the globe. We specialize in transitioning legacy communications networks to converged, next-generation architectures, capable of efficiently delivering a broader mix of high-bandwidth services. By improving network productivity, reducing costs and enabling integrated services offerings, our products create business and operational value for our customers.

Revenue for the third quarter of fiscal 2007 was $205.0 million, representing a 34.4% increase from $152.5 million in the third quarter of fiscal 2006 and a 5.9% sequential increase from $193.5 million in the second quarter of fiscal 2007. The sequential increase was due primarily to higher sales of converged Ethernet infrastructure products to telecommunications carriers. We believe that our market positioning and product offering has enabled us to benefit from customers' continued investment in their networks to address capacity needs and their transition from existing network infrastructures to Ethernet/IP-based networks capable of supporting a broader mix of services.

A sizable portion of our revenue comes from sales to telecommunications service providers for large network builds. These projects are generally characterized by large and sporadic equipment orders and contract terms that can result in the recognition or deferral of significant amounts of revenue in a given quarter. The effect of these factors, and others described elsewhere in this report can cause our revenue and operating results to fluctuate on a quarterly basis.

The consolidation of several of our largest customers continues to affect our concentration of revenue. For the third quarter of 2007, three customers each accounted for greater than 10% of our revenue and 48.5% in the aggregate. This concentration of our revenue exposes us to additional risks, including greater pricing pressure and increased susceptibility to changes in customers' network strategy or reductions in their capital expenditures.

Gross margin for the third quarter of fiscal 2007 was 47.7%, up sequentially from 42.3% in the second quarter of fiscal 2007. For the third quarter of fiscal 2007, product gross margin was 53.7% and services gross margin was (0.4%). Sequential gross margin improvement was largely due to favorable product mix and product cost reductions. Services gross margin was negatively affected due to higher deployment overhead costs related to our transition of certain deployment activities for international network infrastructure projects from third party service providers to expanded internal resources. Our gross margin remains susceptible to fluctuation as a result of the mix of customers and products in any given quarter and the effect of changes in our services gross margin.

Operating expense for the third quarter of fiscal 2007 was $81.6 million, an increase from $79.1 million in the second quarter of fiscal 2007. Operating expense for the third quarter of fiscal 2007 reflects a $2.9 million increase in general and administrative expense, primarily due to costs associated with the settlement of patent-related disputes. While operating expense increased sequentially in absolute terms, it continues to decrease as a percentage of revenue.

Income from operations for the third quarter of fiscal 2007 increased sequentially from $2.7 million to $16.0 million. Net income for the third quarter of fiscal 2007 was $28.3 million, or $0.29 per diluted share. This compares with net income of $13.0 million, or $0.14 per diluted share, for the second quarter of fiscal 2007.

We generated $64.1 million in cash from operations during the third quarter of fiscal 2007, consisting of $44.1 million in cash from net income (adjusted for non-cash charges) and a $20.0 million net increase in cash resulting from changes in working capital. This compares with $44.6 million in cash generated from operations during the second quarter of fiscal 2007, consisting of $31.4 million in cash from net income (adjusted for non-cash charges) and a $13.2 million net decrease in cash resulting from changes in working capital.

On June 11, 2007, we completed a $500.0 million public offering of 0.875% Convertible Senior Notes due June 15, 2017. This offering resulted in net proceeds of approximately $446.1 million, after deducting underwriting discounts, expenses and $42.5 million we used to purchase a call spread option on our common stock. The call spread option is intended to mitigate our exposure to potential dilution from the conversion of the notes. We expect to use the net proceeds of the offering for general corporate purposes, which may include the repurchase, or repayment at maturity, of our outstanding 3.75% convertible notes. The remaining principal balance on our outstanding 3.75% convertible notes of $542.3 million becomes due and payable on February 1, 2008. See Notes 11 and 13 to our financial statements for a discussion of our convertible notes and call spread options, and “Liquidity and Capital Resources” below for a discussion of our cash and cash equivalents, short-term investments and long-term investments at July 31, 2007.

As of July 31, 2007, headcount was 1,770, up from 1,683 at April 30, 2007 and 1,422 at July 31, 2006.

Results of Operations

Three months ended July 31, 2006 compared to three months ended July 31, 2007

Revenue, cost of goods sold and gross profit

In this report we discuss our revenue in three major groupings as follows:

1. *Converged Ethernet Infrastructure*. This group incorporates all products previously in our optical networking and data networking product groups and related software.
2. *Ethernet Access.* This group includes all products and related software previously in our broadband access product group, as well as our recently announced CN 3000 Ethernet Access Series.
3. *Global Network Services.* This group continues to include revenue associated with our service, support and training activities.

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 operations.

The table below (in thousands, except percentage data) sets forth the changes in revenue, cost of goods sold and gross profit for the periods indicated:

	Quarter Ended July 31,				Increase (decrease)	%**
	2006	%*	2007	%*		
Revenue:						
Products	$ 137,809	90.4	$ 182,143	88.9	$ 44,334	32.2
Services	14,690	9.6	22,808	11.1	8,118	55.3
Total revenue	152,499	100.0	204,951	100.0	52,452	34.4
Costs:						
Products	70,356	46.1	84,383	41.2	14,027	19.9
Services	10,479	6.9	22,903	11.2	12,424	118.6
Total cost of goods sold	80,835	53.0	107,286	52.3	26,451	32.7
Gross profit	$ 71,664	47.0	$ 97,665	47.7	$ 26,001	36.3

* Denotes % of total revenue

** Denotes % change from 2006 to 2007

The table below (in thousands, except percentage data) sets forth the changes in product revenue, product cost of goods sold and product gross profit for the periods indicated:

	Quarter Ended July 31,				Increase (decrease)	%**
	2006	%*	2007	%*		
Product revenue	$ 137,809	100.0	$ 182,143	100.0	$ 44,334	32.2
Product cost of goods sold	70,356	51.1	84,383	46.3	14,027	19.9
Product gross profit	$ 67,453	48.9	$ 97,760	53.7	$ 30,307	44.9

* Denotes % of product revenue

** Denotes % change from 2006 to 2007

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) for the periods indicated:

	Quarter Ended July 31,				Increase (decrease)	%**
	2006	%*	2007	%*		
Service revenue	$ 14,690	100.0	$ 22,808	100.0	$ 8,118	55.3
Service cost of goods sold	10,479	71.3	22,903	100.4	12,424	118.6
Service gross profit (loss)	$ 4,211	28.7	$ (95)	(0.4)	$ (4,306)	(102.3)

* Denotes % of service revenue

** Denotes % change from 2006 to 2007

The table below (in thousands, except percentage data) sets forth the changes in distribution of revenue for the periods indicated:

	Quarter Ended July 31,				Increase (decrease)	%**
	2006	%*	2007	%*		
Converged Ethernet infrastructure	$ 117,121	76.8	$ 166,969	81.5	$ 49,848	42.6
Ethernet access	20,688	13.6	15,174	7.4	(5,514)	(26.7)
Global network services	14,690	9.6	22,808	11.1	8,118	55.3
Total	$ 152,499	100.0	$ 204,951	100.0	$ 52,452	34.4

* Denotes % of total revenue

** Denotes % change from 2006 to 2007

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 revenue for the periods indicated:

	Quarter Ended July 31,				Increase	
	2006	%*	2007	%*	(decrease)	%**
United States	$ 116,419	76.3	$ 145,417	71.0	$ 28,998	24.9
International	36,080	23.7	59,534	29.0	23,454	65.0
Total	$ 152,499	100.0	$ 204,951	100.0	$ 52,452	34.4

* Denotes % of total revenue

** Denotes % change from 2006 to 2007

Certain customers each accounted for at least 10% of our revenue for the periods indicated (in thousands, except percentage data) as follows:

	Quarter Ended July 31,			
	2006	%*	2007	%*
Company A	41,494	27.3	24,399	12.0
Company B	18,650	12.2	21,375	10.4
Company C	18,650	12.2	53,584	26.1
Total	$ 78,794	51.7	$ 99,358	48.5

* Denotes % of total revenue

Revenue

- **Product revenue** increased due to a $49.8 million increase in sales of our converged Ethernet infrastructure products. This primarily reflects a $42.9 million increase in sales of core switching products and an $11.2 million increase of our CN 4200™ FlexSelect™ Advanced Service Platform. Product revenue was also affected by a $5.5 million decrease in revenue from Ethernet access products.
- **Service revenue** increased primarily due to increases of $6.3 million in deployment service sales and $1.5 million in maintenance and support services.
- **United States revenue** increased due to a $31.6 million increase in sales of our converged Ethernet infrastructure products. This primarily reflects a $39.8 million increase in sales of core switching products. United States revenue was also affected by a $5.5 million decrease of revenue from Ethernet access products.
- **International revenue** increased due to an $18.2 million increase in sales of our converged Ethernet infrastructure products. This primarily reflects increases of $8.3 million in sales of core transport products and $10.0 million of our CN 4200™ FlexSelect™ Advanced Service Platform. International revenue also reflects an increase of $5.2 million in service revenue, primarily related to deployment services.

Gross profit

- **Gross profit as a percentage of revenue** increased primarily due to higher gross margin on product revenue, slightly offset by a decline in services gross margin.
- **Gross profit on products as a percentage of product revenue** increased primarily due to lower warranty expense, a reduction in excess and obsolete inventory costs, product and manufacturing cost improvements and favorable customer and product mix.
- **Gross profit on services as a percentage of services revenue** decreased significantly as a result of increased deployment overhead costs associated with the expansion of our internal resources related to deployment activities for international network infrastructure projects.

Operating expense

The table below (in thousands, except percentage data) sets forth the changes in operating expense for the periods indicated:

	Quarter Ended July 31,				Increase	
	2006	%*	2007	%*	(decrease)	%**
Research and development	$ 26,190	17.2	$ 31,671	15.5	$ 5,481	20.9
Selling and marketing	24,903	16.3	30,303	14.8	5,400	21.7
General and administrative	16,217	10.6	14,564	7.1	(1,653)	(10.2)
Amortization of intangible assets	6,295	4.1	6,295	3.1	—	0.0
Restructuring costs (recoveries)	11,008	7.2	(1,196)	(0.6)	(12,204)	(110.9)
Recovery of doubtful accounts, net	(139)	(0.1)	—	—	139	(100.0)
Total operating expense	$ 84,474	55.3	$ 81,637	39.9	$ (2,837)	(3.4)

* Denotes % of total revenue

** Denotes % change from 2006 to 2007

- **Research and development expense** increased due to higher employee compensation cost of $4.3 million, primarily due to growth in headcount at our India development center. Other increases included $0.8 million in facilities and information systems costs, $0.8 million in prototype expense and $0.2 million in travel-related expenditures. This was partially offset by a decrease in consulting expense of $0.8 million.

- **Selling and marketing expense** increased primarily due to increases of $3.2 million in employee compensation, $0.6 million in travel expense, $0.4 million in tradeshow activities, $0.4 million in facilities and information systems costs, $0.2 million in demonstration equipment costs and $0.2 million in consulting expense.

- **General and administrative expense** decreased due to a reduction in legal expense of $4.6 million, partially offset by increases of $2.6 million in employee compensation and $0.3 million in facilities and information systems costs. Legal expense for the third quarters of fiscal 2006 and 2007 included $5.7 million and $2.3 million, respectively, in costs associated with settlements of patent litigation.

- **Amortization of intangible assets costs** was unchanged.

- **Restructuring costs** during the third quarter of fiscal 2007 reflect an adjustment primarily related to the return to use of a previously restructured facility. During the third quarter of fiscal 2006, we recorded an adjustment of $10.1 million primarily due to changes in market conditions related to our former facilities in San Jose, CA. In the third quarter of fiscal 2006, we also recorded charges totaling $0.9 million related to the closure of our facilities in Shrewsbury, NJ and Beijing, China.

- **Recovery of doubtful accounts, net** for the third quarter of fiscal 2006 was related to the receipt of amounts due from customers from whom payment was previously deemed doubtful due to the customers' financial condition.

Other items

The table below (in thousands, except percentage data) sets forth the changes in other items for the periods indicated:

	Quarter Ended July 31,				Increase	
	2006	%*	2007	%*	(decrease)	%**
Interest and other income, net	$ 14,045	9.2	$ 19,464	9.5	$ 5,419	38.6
Interest expense	$ 6,148	4.0	$ 6,931	3.4	$ 783	12.7
Gain on equity investments	$ 948	0.6	$ 592	0.3	$ (356)	(37.6)
Provision for income taxes	$ 320	0.2	$ 841	0.4	$ 521	162.8

* Denotes % of total revenue

** Denotes % change from 2006 to 2007

- **Interest and other income, net** increased in part due to higher average cash and investment balances resulting from the proceeds of our June 11, 2007 issuance of 0.875% convertible senior notes and in part due to higher interest rates. The remaining principal balance of $542.3 million on our 3.75% convertible notes becomes due and payable on February 1, 2008. The repayment of this amount will decrease our cash and investment balance significantly, reducing our interest income and expense.

- **Interest expense** increased slightly, primarily due to interest associated with our June 11, 2007 issuance of 0.875% convertible senior notes.

- **Provision for income taxes** was primarily attributable to foreign tax related to Ciena's foreign operations. We will continue to maintain a valuation allowance against all net deferred tax assets until sufficient evidence exists to support its reversal.

Nine months ended July 31, 2006 compared to nine months ended July 31, 2007

Revenue, cost of goods sold and gross profit

The table below (in thousands, except percentage data) sets forth the changes in revenue, cost of goods sold and gross profit for the periods indicated:

	Nine Months Ended July 31,				Increase	
	2006	%*	2007	%*	(decrease)	%**
Revenue:						
Products	$ 360,958	89.3	$ 501,637	89.0	$ 140,679	39.0
Services	43,146	10.7	61,942	11.0	18,796	43.6
Total revenue	$ 404,104	100.0	$ 563,579	100.0	159,475	39.5
Costs:						
Products	189,712	46.9	250,681	44.5	60,969	32.1
Services	29,367	7.3	59,775	10.6	30,408	103.5
Total cost of goods sold	219,079	54.2	310,456	55.1	91,377	41.7
Gross profit	$ 185,025	45.8	$ 253,123	44.9	$ 68,098	36.8

* Denotes % of total revenue

** Denotes % change from 2006 to 2007

The table below (in thousands, except percentage data) sets forth the changes in product revenue, product cost of goods sold and product gross profit for the periods indicated:

	Nine Months Ended July 31,				Increase	
	2006	%*	2007	%*	(decrease)	%**
Product revenue	$ 360,958	100.0	$ 501,637	100.0	$ 140,679	39.0
Product cost of goods sold	189,712	52.6	250,681	50.0	60,969	32.1
Product gross profit	$ 171,246	47.4	$ 250,956	50.0	$ 79,710	46.5

* Denotes % of product revenue

** Denotes % change from 2006 to 2007

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) for the periods indicated:

	Nine Months Ended July 31,				Increase (decrease)	%**
	2006	%*	2007	%*		
Service revenue	$ 43,146	100.0	$ 61,942	100.0	$ 18,796	43.6
Service cost of goods sold	29,367	68.1	59,775	96.5	30,408	103.5
Service gross profit	$ 13,779	31.9	$ 2,167	3.5	$ (11,612)	(84.3)

* Denotes % of service revenue

** Denotes % change from 2006 to 2007

The table below (in thousands, except percentage data) sets forth the changes in distribution of revenue for the periods indicated:

	Nine Months Ended July 31,				Increase (decrease)	%**
	2006	%*	2007	%*		
Converged Ethernet infrastructure	$ 292,863	72.4	$ 464,267	82.4	$ 171,404	58.5
Ethernet access	68,095	16.9	37,370	6.6	(30,725)	(45.1)
Global network services	43,146	10.7	61,942	11.0	18,796	43.6
Total	$ 404,104	100.0	$ 563,579	100.0	$ 159,475	39.5

* Denotes % of total revenue

** Denotes % change from 2006 to 2007

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 revenue for the periods indicated:

	Nine Months Ended July 31,				Increase (decrease)	%**
	2006	%*	2007	%*		
United States	$ 314,468	77.8	$ 404,683	71.8	$ 90,215	28.7
International	89,636	22.2	158,896	28.2	69,260	77.3
Total	$ 404,104	100.0	$ 563,579	100.0	$ 159,475	39.5

* Denotes % of total revenue

** Denotes % change from 2006 to 2007

Certain customers each accounted for at least 10% of our revenue for the periods indicated (in thousands, except percentage data) as follows:

	Nine Months Ended July 31,			
	2006	%*	2007	%*
Company A	52,056	12.9	81,605	14.4
Company B	60,244	14.9	58,463	10.4
Company C	50,778	12.6	125,059	22.2
Total	$ 163,078	40.4	$ 265,127	47.0

* Denotes % of total revenue

Revenue

- **Product revenue** increased due to a $171.4 million increase in sales of our converged Ethernet infrastructure products. This primarily reflects increases of $90.2 million in sales of core switching products, $73.8 million of core transport products, and $42.8 million from our CN 4200™ FlexSelect™ Advanced Service Platform. Product revenue was also affected by a $30.7 million decrease of revenue from Ethernet access products.

- **Service revenue** increased primarily due to increases of $13.2 million in deployment service sales and $4.1 million in maintenance and support services.

- **United States revenue** increased due to a $114.1 million increase in sales of our converged Ethernet infrastructure products. This primarily reflects increases of $87.1 million in sales of core switching and $49.1 of core transport products. United States revenue also reflects a $30.9 million decrease of revenue from Ethernet access products and a $7.0 million increase of service revenue.

- **International revenue** increased due to a $57.3 million increase in sales of our converged Ethernet infrastructure products. This primarily reflects increases of $24.7 million in sales of core transport products and $39.8 million of our CN 4200™ FlexSelect™ Advanced Service Platform. International revenue also reflects an increase of $11.8 million in service revenue, primarily related to deployment.

Gross profit

- **Gross profit as a percentage of revenue** decreased primarily due to the significant reduction in services gross margin during the second and third quarters of fiscal 2007.

- **Gross profit on products as a percentage of product revenue** increased primarily due to product mix and lower warranty expense.

- **Gross profit on services as a percentage of services revenue** decreased as a result of the factors described in the quarterly analysis above.

Operating expense

The table below (in thousands, except percentage data) sets forth the changes in operating expense for the periods indicated:

	Nine Months Ended July 31,				Increase	
	2006	%*	2007	%*	(decrease)	%**
Research and development	$ 84,508	20.9	$ 93,166	16.5	$ 8,658	10.2
Selling and marketing	78,132	19.3	85,360	15.1	7,228	9.3
General and administrative	37,359	9.2	36,572	6.5	(787)	(2.1)
Amortization of intangible assets	18,885	4.7	18,885	3.4	—	0.0
Restructuring costs (recoveries)	16,037	4.0	(2,396)	(0.4)	(18,433)	(114.9)
Long-lived asset impairment	(6)	—	—	—	6	(100.0)
Recovery of doubtful accounts, net	(2,990)	(0.7)	(10)	—	2,980	(99.7)
Gain on lease settlement	(11,648)	(2.9)	—	—	11,648	(100.0)
Total operating expense	$ 220,277	54.5	$ 231,577	41.1	$ 11,300	5.1

* Denotes % of total revenue

** Denotes % change from 2006 to 2007

- **Research and development expense** increased due to higher employee compensation cost of $6.2 million, primarily due to growth in headcount at our India development center. Other increases included $3.1 million in prototype expense, $0.8 million in facilities and information systems costs and $0.5 million in travel-related expenditures. This was partially offset by a decrease in consulting expense of $1.6 million.

- **Selling and marketing expense** increased primarily due to increases of $5.9 million in employee compensation, $0.8 million in travel expense and $0.7 million in tradeshow activities.

- **General and administrative expense** decreased due to a $7.4 million reduction in legal expense, offset by increases of $6.3 million in employee compensation and $0.4 million in facilities and information systems costs. Legal expense for the first nine months of fiscal 2006 and 2007 included $5.7 million and $2.3 million, respectively, in costs associated with settlements of patent litigation.

- **Amortization of intangible assets costs** was unchanged.

- **Restructuring costs** during the first nine months of fiscal 2007 primarily reflect adjustments related to the return to use of previously restructured facilities. During the first nine months of fiscal 2006, we recorded an adjustment of $9.7 million primarily due to changes in market conditions related to our former facilities in San Jose, CA. In the first nine months of fiscal 2006, we also recorded charges totaling $6.3 million related to the closure of our facilities in Kanata, Ontario, Shrewsbury, NJ and Beijing, China.

- **Recovery of doubtful accounts, net** during the first nine months of fiscal 2006 and fiscal 2007 was related to the payment of amounts due from customers from whom payment was previously deemed doubtful due to the customers' financial condition.

- **Gain on lease settlement** for the first nine months of fiscal 2006 was related to the termination of the lease obligations for our former Freemont, CA and Cupertino, CA facilities.

Other items

The table below (in thousands, except percentage data) sets forth the changes in other items for the periods indicated:

	Nine Months Ended July 31,				Increase	
	2006	%*	2007	%*	(decrease)	%**
Interest and other income, net	$34,504	8.5	$51,206	9.1	$16,702	48.4
Interest expense	$18,016	4.5	$19,227	3.4	$ 1,211	6.7
Gain (loss) on equity investments	$ 215	0.1	$ 592	0.1	$ 377	175.3
Gain on extinguishment of debt	$ 7,052	1.7	$ —	—	$ (7,052)	(100.0)
Provision for income taxes	$ 989	0.2	$ 1,739	0.3	$ 750	75.8

* Denotes % of total revenue

** Denotes % change from 2006 to 2007

- **Interest and other income, net** increased in part due to higher average cash and investment balances resulting from the proceeds of our April 10, 2006 issuance of 0.25% convertible senior notes and our June 11, 2007 issuance of 0.875% convertible senior notes, and in part due to higher interest rates.
- **Interest expense** increased primarily due to interest associated with our April 10, 2006 issuance of 0.25% convertible senior notes and June 11, 2007 issuance of 0.875% convertible senior notes.
- **Gain on extinguishment of debt** for the first nine months of fiscal 2006 resulted from our repurchase of $106.5 million of our outstanding 3.75% convertible notes in open market transactions for $98.4 million. We recorded a gain on the extinguishment of debt in the amount of $7.1 million, which consists of the $8.1 million gain from the repurchase of the notes, less $1.0 million of associated debt issuance costs.
- **Provision for income taxes** was primarily attributable to foreign tax related to our foreign operations. We will continue to maintain a valuation allowance against all net deferred tax assets until sufficient evidence exists to support its reversal.

Liquidity and Capital Resources

At July 31, 2007, 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, 2006	July 31, 2007	Increase (decrease)
Cash and cash equivalents	$ 220,164	$ 724,271	$ 504,107
Short-term investments of marketable debt securities	628,393	1,004,492	376,099
Long-term investments of marketable debt securities	351,407	8,354	(343,053)
Total cash, cash equivalents, short-term and long-term investments	$ 1,199,964	$ 1,737,117	$ 537,153

The increase in total cash, cash equivalents and short-term and long-term investments during the first nine months of fiscal 2007 was primarily related to the net proceeds from our June 11, 2007 issuance of 0.875% convertible senior notes, our net income during the period and the effect of non-cash items described in “Operating Activities” below. Based on past performance and current expectations, we believe that our cash and cash equivalents, short-term investments, long-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. This includes paying off the $542.3 million principal of our outstanding 3.75% convertible notes at maturity on February 1, 2008.

The following sections review the significant activities that had an impact on our cash during the first nine months of fiscal 2007.

Operating Activities

The following tables set forth (in thousands) significant components of our $97.4 million of cash generated by operating activities for the first nine months of fiscal 2007:

Net income

	Nine Months Ended July 31, 2007
Net income	$ 52,378

Our net income for the first nine months of fiscal 2007 included the significant non-cash items summarized in the following table (in thousands):

	Nine Months Ended July 31, 2007
Amortization of intangible assets	$ 21,788
Share-based compensation costs	14,258
Depreciation of equipment, furniture and fixtures; and amortization of leasehold improvements	9,407
Provision for inventory excess and obsolescence	8,860
Provision for warranty	8,910
Total significant non-cash charges	$ 63,223

Accounts Receivable, Net

Cash consumed by accounts receivable, net increased by $10.6 million from the end of fiscal 2006 to July 31, 2007. Our accounts receivable balance increased due to higher sales volume, contractual acceptance terms for turnkey deployments affecting the timing of invoicing, and longer payment terms, primarily associated with our international revenue. Although our accounts receivable balance increased by 10.0% from the end of fiscal 2006, our days sales outstanding ("DSO") decreased from 68 days for fiscal 2006 to 56 days for the first nine months of fiscal 2007 due to our proportionately higher revenue growth during fiscal 2007.

The following table sets forth (in thousands) changes to our accounts receivable, net of allowance for doubtful accounts receivable, from the end of fiscal 2006 through the first nine months of fiscal 2007:

	October 31, 2006	July 31, 2007	Increase (decrease)
Accounts receivable, net	$ 107,172	$ 117,806	$ 10,634

Inventory, Net

Excluding the non-cash effect of an $8.9 million provision for excess and obsolescence, cash consumed by inventory for the first nine months of fiscal 2007 was $7.9 million. Ciena's inventory turns increased from 2.5 for fiscal 2006 to 3.2 for the first nine months of fiscal 2007. The following table sets forth (in thousands) changes to the components of our inventory from the end of fiscal 2006 through the first nine months of fiscal 2007:

	October 31, 2006	July 31, 2007	Increase (decrease)
Raw materials	$ 29,627	$ 31,231	$ 1,604
Work-in-process	9,156	6,586	(2,570)
Finished goods	89,628	91,455	1,827
Gross inventory	128,411	129,272	861
Provision for inventory excess and obsolescence	(22,326)	(24,131)	(1,805)
Inventory, net	$ 106,085	$ 105,141	$ (944)

Accounts payable

During the first nine months of fiscal 2007, we modified our standard vendor payment terms and payment practices from net 30 days to net 45 days. This change caused an increase in our accounts payable balance of $12.5 million. The following table sets forth (in thousands) changes in our accounts payable from the end of fiscal 2006 through the first nine months of fiscal 2007:

	October 31, 2006	July 31, 2007	Increase (decrease)
Accounts payable	$ 39,277	$ 51,798	$ 12,521

Restructuring and unfavorable lease commitments

During the first nine months of fiscal 2007, we paid $4.8 million on leases related to restructured facilities and $5.6 million on leases associated with unfavorable lease commitments. The following table reflects (in thousands) the balance of liabilities for our restructured facilities and unfavorable lease commitments and the change in these balances from the end of fiscal 2006 through the first nine months of fiscal 2007:

	October 31, 2006	July 31, 2007	Increase (decrease)
Restructuring liabilities	$ 8,914	$ 7,164	$ (1,750)
Unfavorable lease commitments	8,512	8,406	(106)
Long-term restructuring liabilities	26,720	21,188	(5,532)
Long-term unfavorable lease commitments	32,785	26,473	(6,312)
Total restructuring liabilites and unfavorable lease commitments	$ 76,931	$ 63,231	$ (13,700)

Following the end of our third quarter of fiscal 2007, on August 15, 2007, we paid $53 million in connection with the transfer and settlement of our lease obligation related to previously restructured facilities in San Jose, CA. This transaction resulted in a gain on lease settlement of approximately $5.0 million by eliminating our remaining unfavorable lease commitment balance of $34.9 million and reducing our restructuring liabilities by $23.5 million, offset by approximately $0.4 million of other expenses.

Interest Payable on Ciena's Convertible Notes

Interest on Ciena's outstanding 3.75% convertible notes, due February 1, 2008, is payable on February 1 and August 1 of each year. Ciena paid $10.2 million in interest on the 3.75% convertible notes during the first nine months of fiscal 2007.

Interest on Ciena's outstanding 0.25% convertible senior notes, due May 1, 2013, is payable on May 1 and November 1 of each year, commencing on November 1, 2006. Ciena paid $0.4 million in interest on the 0.25% convertible notes during the first nine months of fiscal 2007.

Interest on Ciena's outstanding 0.875% convertible senior notes, due June 15, 2017, is payable on June 15 and December 15 of each year, commencing on December 15, 2007.

The indentures governing our notes do not contain any financial covenants. The indentures provide for customary events of default, including payment defaults, breaches of covenants, failure to pay certain judgments and certain events of bankruptcy, insolvency and reorganization. If an event of default occurs and is continuing, the principal amount of the notes, plus accrued and unpaid interest, if any, may be declared immediately due and payable. These amounts automatically become due and payable if an event of default relating to certain events of bankruptcy, insolvency or reorganization occurs.

The following table reflects (in thousands) the balance of interest payable and the change in this balance from the end of fiscal 2006 through the first nine months of fiscal 2007.

	October 31, 2006	July 31, 2007	Increase (decrease)
Accrued interest payable	$ 5,502	$ 10,944	$ 5,442

Deferred revenue

During the first nine months of fiscal 2007, deferred revenue increased by $19.0 million. The increase in product deferred revenue was due to payments received in advance of our ability to recognize revenue. The increase in service deferred revenue is related to payment for service contracts that will be recognized over the contract term. The following table reflects (in thousands) the balance of deferred revenue and the change in this balance from the end of fiscal 2006 through the first nine months of fiscal 2007:

	October 31, 2006	July 31, 2007	Increase (decrease)
Products	$ 4,276	$ 14,231	$ 9,955
Services	36,400	45,893	9,493
Total deferred revenue	$ 40,676	$ 60,124	$ 19,448

Financing Activities

On June 11, 2007, we completed a $500.0 million public offering of 0.875% Convertible Senior Notes due June 15, 2017. This offering resulted in net proceeds of approximately $446.1 million, after deducting underwriting discounts, expenses and $42.5 million we used to purchase a call spread option on our common stock. The call spread option is intended to mitigate our exposure to potential dilution from the conversion of the notes. We expect to use the net proceeds of the offering for general corporate purposes, which may include the repurchase or repayment at maturity of our outstanding 3.75% convertible notes. The remaining principal balance on our outstanding 3.75% convertible notes of $542.3 million becomes due and payable on February 1, 2008. Cash provided by financing activities during the first nine months of fiscal 2007 also includes $18.3 million related to the exercise of employee stock options and participation in our employee stock purchase plan.

Contractual Obligations

During the third quarter of fiscal 2007, we did not experience material changes, outside of the ordinary course of business, in our contractual obligations from those reported in our form 10-K for the year ended October 31, 2006. The following is a summary of our future minimum payments under contractual obligations as of July 31, 2007 (in thousands):

	Total	Less than one year	One to three years	Three to five years	Thereafter
Convertible notes (1)	$ 1,410,931	$ 567,806	$ 10,250	$ 10,250	$ 822,625
Operating leases (2)	123,798	25,668	47,811	28,551	21,768
Purchase obligations (3)	104,410	104,410	—	—	—
Total	$ 1,639,139	$ 697,884	$ 58,061	$ 38,801	$ 844,393

(1) The $542.3 million in outstanding principal balance on our 3.75% convertible notes becomes due and payable on February 1, 2008.

(2) Following the end of our third quarter of fiscal 2007, on August 15, 2007, we paid $53 million in connection with the transfer and settlement of our lease obligation related to previously restructured facilities in San Jose, CA.

(3) Purchase obligations relate to purchase order commitments to our contract manufacturers and component suppliers for inventory. In certain instances, we are permitted to cancel, reschedule or adjust these orders. Consequently, only a portion of the amount reported above relates to firm, non-cancelable and unconditional obligations.

Some of our commercial commitments and other obligations, including some of the future minimum payments set forth above, are secured by standby letters of credit. The following is a summary of our commitments secured by standby letters of credit by commitment expiration date as of July 31, 2007 (in thousands):

	Total	Less than one year	One to three years	Three to five years	Thereafter
Standby letters of credit	$ 20,937	$ 2,773	$ 18,164	$ —	$ —

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, revenue and expense, 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.

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 or 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. Revenue for maintenance services is generally deferred and recognized ratably over the period during which the services are to be performed.

Some of our communications networking equipment is integrated with software that is essential to the functionality of the equipment. 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 $4.3 million and $14.2 million as of October 31, 2006 and July 31, 2007, 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 $36.4 million and $45.9 million as of October 31, 2006 and July 31, 2007, respectively.

Share-Based Compensation

On November 1, 2005, Ciena adopted SFAS 123(R), "Share-Based Payments," as interpreted by SAB 107, which requires the measurement and recognition of compensation expense for share-based awards based on estimated fair values. SFAS 123(R) requires companies to estimate the fair value of share-based awards on the date of grant. Share-based compensation expense recognized in Ciena's consolidated statement of operations 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), as interpreted by SAB 107.

We estimate the fair value of each option-based award on the date of grant using the Black-Scholes option-pricing model. 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 life 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; and options are non-transferable and non-hedgeable. We consider the implied volatility and historical volatility of our stock price in determining our expected volatility, and, finding both to be equally reliable, have determined that a combination of both measures would result in the best estimate of expected volatility. The estimated fair value of option-based awards, net of estimated forfeitures, is recognized as stock-based compensation expense on a straight-line basis over the requisite service period.

We estimate the fair value of our restricted stock unit awards based on the fair value of our common stock at the time of grant. Our outstanding restricted stock unit awards are subject to time-based vesting conditions or performance-based vesting conditions. The estimated fair value of time-based awards, net of estimated forfeitures, is recognized as share-based expense ratably over the vesting period on a straight-line basis. Awards with performance-based vesting conditions require the achievement of certain company-based, financial or other performance criteria or targets as a condition to the vesting, or acceleration of vesting, of such awards. The estimated fair value of performance-based awards, net of estimated forfeitures, is recognized as share-based expense over the performance period, using graded vesting and based upon our determination of whether it is probable that the performance targets will be achieved. At each reporting period, we reassess the probability of achieving the performance targets and the performance period required to meet those targets. Determining whether the performance targets will be achieved involves judgment, and the estimate of expense is revised periodically based on the probability of achieving the performance targets. Revisions are reflected in the period in which the estimate is changed. If any performance goals are not met, no compensation cost is ultimately recognized and, to the extent previously recognized, compensation cost is reversed.

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

Because share-based compensation expense is based on awards that are ultimately expected to vest, the amount of expense takes into account 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. Changes in these inputs and assumptions can materially affect the measure of estimated fair value of our share-based compensation. See Note 14 to our financial statements for information regarding Ciena's treatment of 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 nine months of fiscal 2007, Ciena recorded a charge of $8.9 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 have transitioned certain manufacturing operations from the build-to-order model we have used in recent years, to a build-to-forecast model across our product lines. 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 July 31, 2007, Ciena's accrued restructuring liability related to net lease expense and other related charges was $28.3 million. The total minimum lease payments for these restructured facilities are $37.3 million. These lease payments will be made over the remaining lives of our leases, which range from seven months to twelve years. If actual market conditions are different than those we have projected, we are required to recognize additional restructuring costs or benefits associated with these facilities. During fiscal 2006, we recognized net adjustments resulting in restructuring costs of $9.2 million, which included a $10.0 million adjustment during the third quarter of fiscal 2006 relating to our unused San Jose, CA facilities. Activity during the first nine months of fiscal 2007 was insignificant.

Following the end of our third quarter of fiscal 2007, on August 15, 2007, we paid $53 million in connection with the transfer and settlement of our lease obligation related to previously restructured facilities in San Jose, CA. This transaction resulted in a gain on lease settlement of approximately $5.0 million by eliminating our remaining unfavorable lease commitment balance of $34.9 million and reducing our restructuring liabilities by $23.5 million, offset by approximately $0.4 million of other expenses.

Allowance for Doubtful Accounts

Ciena's allowance for doubtful accounts receivable 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 receivable, 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 for doubtful accounts receivable.

Goodwill

As of July 31, 2007, Ciena's consolidated balance sheet included $232.0 million in goodwill. In accordance with SFAS 142, Ciena tests its goodwill for impairment on an annual basis, which Ciena has determined to be the last business day of fiscal September each year, 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 2007 or in periods prior to our annual assessment, we may be required to record additional goodwill impairment charges.

Intangible Assets

As of July 31, 2007, Ciena's consolidated balance sheet included $69.5 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 July 31, 2007 Ciena's marketable debt investments had unrealized losses of $0.4 million. The gross unrealized losses, related to marketable debt investments, were primarily due to changes in interest rates. Ciena's management has determined that the gross unrealized losses on its marketable debt investments at July 31, 2007 are temporary in nature because Ciena has the ability and intent to hold these investments until a recovery of fair value, which may be maturity.

As of July 31, 2007, Ciena's minority investments in privately held technology companies, reported in other assets, were $6.7 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. 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 July 31, 2007, Ciena has recorded a valuation allowance of $1.2 billion against our net 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.

Warranty

The liability for product warranties, included in other accrued liabilities, was $32.5 million as of July 31, 2007. Our products are generally covered by a warranty for periods ranging from one to five years. Ciena accrues for warranty costs as part of our cost of sales based on associated material costs, technical support labor costs, and associated overhead. Material cost is estimated based primarily upon historical trends in the volume of product returns within the warranty period and the cost to repair or replace the equipment. Technical support labor cost is estimated based primarily upon historical trends and the cost to support the customer cases within the warranty period.

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. See Note 4 to the financial statements for information relating to fair value. 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 July 31, 2007, the fair value of the portfolio would decline by approximately $39.6 million.

Foreign Currency Exchange Risk. As a global concern, Ciena faces exposure to adverse movements in foreign currency exchange rates. Because our sales are primarily denominated in U.S. dollars, the impact of foreign currency fluctuations on sales has not been material. Ciena's primary exposures are related to non-U.S. dollar denominated operating expense in Canada, Europe, India and China. During the first nine months of fiscal 2007, approximately 78% of our operating expense was U.S.-dollar denominated. As of July 31, 2007, the assets and liabilities of Ciena related to non-dollar denominated currencies were primarily related to intercompany payables and receivables and are currently immaterial. 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. To date, Ciena has not significantly hedged against foreign currency fluctuations. Should exposure to fluctuations in foreign currency become more significant, however, we may pursue hedging alternatives.

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 September 11, 2006, the PTO issued a Notice of Intent to Issue a Reexamination Certificate and Statement of Reasons for Patentability/Confirmation, stating its intent to confirm certain claims of the '016 Patent. On June 22, 2007, in response to the plaintiffs' most recent status report, the district court issued an order lifting the stay of the case. The district court subsequently scheduled a final pretrial conference for January 14, 2008, and the parties are currently negotiating a case management schedule. Separately, on July 2, 2007, defendant JDS Uniphase filed a request for *Ex Parte R*eexamination of the '016 Patent with the PTO and a request that the district court reinstate the stay of the case on the basis of its reexamination request. On August 21, 2007, the PTO vacated the filing date assigned to JDS Uniphase's request for failure to comply with certain substantive requirements and provided a 30 day cure period. We believe that we have valid defenses to the lawsuit and intend to defend it vigorously.

As a result of our 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 would be dismissed, the insurers would agree to guarantee a recovery by the plaintiffs from the underwriter defendants of at least $1 billion, and the issuer defendants would agree to assign or surrender to the plaintiffs certain claims the issuers may have against the underwriters. The settlement agreement did not require Ciena to pay any amount toward the settlement or to make any other payments. In October 2004, the district court certified a class with respect to the Section 10(b) claims in six "focus cases" selected out of all of the consolidated cases, which cases did not include Ciena, and which decision was appealed by the underwriter defendants to the U.S. Court of Appeals for the Second Circuit. On February 15, 2005, the district court granted the motion filed by the plaintiffs and issuer defendants for preliminary approval of the settlement agreement, subject to certain modifications to the proposed bar order, and on August 31, 2005, the district court issued a preliminary order approving the revised stipulated settlement agreement. On December 5, 2006, the U.S. Court of Appeals for the Second Circuit vacated the district court's grant of class certification in the six focus cases. On April 6, 2007, the Second Circuit denied plaintiffs' petition for rehearing. In light of the Second Circuit's decision, the issuer defendants have informed the district court that the settlement cannot be approved as currently constituted because the defined settlement class cannot be certified. It is unclear whether or not the issuer defendants will be able to renegotiate a settlement with the plaintiffs and insurers that complies with the Second Circuit's mandate. Due to the inherent uncertainties of litigation, we cannot accurately predict the ultimate outcome of the matter at this time.

On April 9, 2007, QPSX Developments 5 Pty. Ltd. (a subsidiary of Ipernica Ltd.) filed a complaint in the United States District Court for the Eastern District of Texas against Ciena and several other defendants, alleging that certain of the parties' products infringe U.S. Patent No. 5,689,499. After successful settlement negotiations, we entered into an agreement with QPSX pursuant to which, in exchange for a one-time payment, we obtained a fully paid-up license to all of the patents held by QPSX and its affiliates and a release from all claims for damages relating to such patents. On August 23, 2007, the district court granted the parties' joint motion to dismiss the case against Ciena with prejudice.

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.

Our business is dependent upon the proper functioning of our information systems and upgrading these systems may result in disruption to our business, operating processes and internal controls.

The efficient operation of our business is dependent on the successful operation of our information systems. In particular, we rely on our information systems to process financial information, manage inventory and administer our sales transactions. In an effort to improve the efficiency of our operations, achieve greater automation and support the growth of our business, we are in the process of upgrading certain information systems and are in the final stages of the implementation of a new version of our Oracle management information system. We anticipate that the reimplementation of our Oracle management information system will involve the cessation of certain operational and business processes during a transition period in fiscal 2008. Following, reimplementation, we will undergo a process of validating the data to ensure its integrity and we will need to train our personnel. As a result of these changes, we anticipate that we will have to modify a number of operational processes and internal control procedures. We cannot be certain that our Oracle reimplementation process will occur without some level of disruption of our business, operating processes and controls. Major information system upgrades are complex and we may encounter unanticipated interruptions or complications. Any material disruption, malfunction or similar problems with our information systems, including our Oracle reimplementation project, could have a negative effect on our business and results of operations in the period affected.

We face intense competition that could hurt our sales and 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, services, existing business and customer relationships, scalability and the ability of products and services to meet the immediate and future network requirements of customers. A small number of very large companies have historically dominated the communications networking equipment industry. These competitors have substantially greater financial, technical and marketing resources, greater manufacturing capacity and better established relationships with telecommunications carriers and other potential customers than we do. Recent consolidation activity among large networking equipment providers has caused some of our competitors to grow even larger, which may magnify their strategic advantages. In 2006, Alcatel acquired Lucent, Nokia and Siemens combined their communications service provider businesses to create a new joint venture, and Ericsson acquired certain telecommunications business assets of Marconi Corporation. These transactions may adversely affect our competitive position.

We also compete with a number of smaller companies that provide significant competition for a specific product, application, customer segment or geographic 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.

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

- significant price competition, particularly from competitors in Asia;
- 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;
- competitors offering equity ownership positions to customers; and
- intellectual property assertions and disputes.

The tactics described above can be particularly effective in an increasingly concentrated base of potential customers such as telecommunications service providers. If we fail to compete successfully in our markets our sales and profitability would suffer.

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 expense 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, and this could result in 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 large telecommunications carrier customers;
- satisfaction of contractual customer acceptance criteria and related revenue recognition requirements;
- delays, changes to or cancellation of orders from customers;
- the effects of consolidation of our customers, including increased exposure to any changes in network strategy and reductions in customer capital expenditures;
- the availability of an adequate supply of components and sufficient manufacturing capacity;
- the introduction of new products by us or our competitors;
- readiness of customer sites for installation; 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 infrastructure builds where the achievement of certain performance thresholds for acceptance is subject to the readiness and performance of the customer or other providers, and changes in customer requirements or installation plans. As a consequence, our revenue 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. Any one or a combination of the factors above may cause our revenue and operating results to fluctuate from quarter to quarter.

Our gross margin may fluctuate from quarter to quarter and may be adversely affected by a number of factors, which may make it difficult to maintain profitability.

Our gross margin fluctuates from quarter to quarter and may be adversely affected by numerous factors, including:

- increased price competition;
- customer, product and service mix in any period;
- the effect of our services gross margin, which continues to be negatively affected by higher deployment overhead costs relating to the expansion of internal service resources;
- 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 that contribute to fluctuations in revenue and operating results can also affect our gross margin. Fluctuations in gross margin may make it difficult to 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.

A small number of telecommunications service provider customers account for a significant portion of our revenue, which could adversely affect our business, financial condition and results of operations.

Primarily as a result of recent combinations between large service providers, our revenue has become increasingly concentrated among a relatively small number of customers. For the first nine months of fiscal 2007, three customers each accounted for greater than 10% of our revenue and 47.0% in the aggregate.

Consolidation of large telecommunication service providers has resulted in increases in concentration of customer purchasing power. This in turn may lead to constraints on pricing, fluctuations in revenue, increases in costs to meet demands of large customers and pressure to accept onerous contract terms. Consolidation may result in fewer opportunities to participate in larger network builds and could increase our exposure to changes in customer network strategy and reductions in customer capital expenditures. In addition, because a significant part of our revenue remains concentrated among telecommunications service providers, our business could be exposed to risks associated with a market-wide change in business prospects, competitive pressures or other conditions affecting our telecommunications carriers customers. Any of these developments, or the loss of, or significant reductions in spending by, one or more of our large customers could have a material adverse effect on our business, financial condition and results of operations.

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.

Our future success will depend on our ability to maintain and expand our sales to large communications service providers. These sales typically involve lengthy sales cycles, protracted or difficult contract negotiations, and extensive product testing and network certification. We are sometimes required to assume contract terms or conditions that negatively affect pricing, payment and the timing of revenue recognition in order to consummate a sale. These terms may, in turn, negatively affect our revenue and results of operations and increase our susceptibility to quarterly fluctuations in our results. Communications service providers may ultimately insist upon terms and conditions that we deem too onerous or not in our best interest. Moreover, our purchase agreements generally do not require that a customer guarantee any minimum purchase level and customers often have the right to modify, delay, reduce or cancel previous orders. As a result, we may incur substantial expense and devote time and resources to potential relationships that never materialize or result in lower than anticipated sales.

Investment of research and development resources in technologies for which there is not a matching market opportunity, or failure to sufficiently or timely invest in technologies for which there is market demand, would adversely affect our revenue and profitability.

The market for communications networking equipment is characterized by rapidly evolving technologies and changes in market demand. To succeed in this market, we must continue to invest in research and development to enhance our existing products and create new ones. There is often a lengthy period between commencing a development initiative and bringing the new or revised product to market, and during this time, technology or the market may move in directions we did not anticipate. There is a significant possibility, therefore, that at least some of our development decisions will not turn out as anticipated, and that our investment in a project will be unprofitable. There is also a possibility that we may miss a market opportunity because we fail to invest, or invest too late, in a new product or an enhancement of an existing product that could have been highly profitable. Changes in the market may also cause us to discontinue previously planned investments in products, which can have a disruptive effect on relationships with customers that were anticipating the availability of a new product or feature. If we fail to make the right investments and to make them at the right time, our competitive position may suffer and our revenue and profitability could be harmed.

Product performance problems could damage our business reputation and negatively affect our results of operations.

The development and production of new products, and enhancements to existing products, are complicated and often involve problems with software, components and manufacturing methods. Due to the complexity of these products, some of them can be fully tested only when deployed in communications networks or with other equipment. We have introduced new or upgraded products recently and expect to continue to enhance and extend our product portfolio. Product performance problems are often more acute for initial deployments of new products and product enhancements. In addition, initial deployments of new or enhanced products, particularly into the networks of telecommunications carriers, often require costly and rigorous testing and satisfaction by certain standard setting organizations. Modifying our products to enable customers to integrate them into a new type of network architecture can entail added costs and 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 addressing software or hardware defects, including service and warranty expense;
- payment of liquidated damages for performance failures or delays;
- high inventory obsolescence expense;
- delays in collecting accounts receivable;
- cancellation or reduction in orders from customers; and
- damage to our reputation or legal actions by customers or end users.

Because we outsource manufacturing to contract manufacturers and use a direct order fulfillment model for certain products, we may be subject to product performance problems resulting from the acts or omissions of these third parties. Our resale of products manufactured by third parties may similarly expose us to performance problems. Product performance problems could damage our business reputation and negatively affect our business and results of operations.

We may be required to write off significant amounts of inventory as a result of our inventory purchase practices, the convergence of our product lines and our supplier transitions.

To avoid delays and meet customer demand for shorter delivery terms, we place orders with our contract manufacturers and suppliers to manufacture components and complete assemblies based on forecasts of customer demand. As a result, our inventory purchases expose 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. Our purchase agreements generally do not require that a customer guarantee any minimum purchase level and customers often have the right to modify, reduce or cancel purchase quantities. As a result, we may purchase inventory based on forecasted sales and in anticipation of purchases that never come to fruition. Historically, we have been required to write off inventory due to the circumstances above. As features and functionalities converge across our product lines, we face an increased risk that customers may elect to forego purchases of one product we have inventoried in favor of purchasing another product.

In addition, we may be exposed to write offs due to significant inventory purchases deemed necessary in connection with the transition from one supplier to another, or resulting from a supplier's decision to discontinue the manufacture of certain components necessary for our products. We may also be required to write off inventory as a result of the effect of evolving domestic and international environmental regulations. We currently hold inventory that includes components that are not compliant with the Restriction of the Use of Certain Hazardous Substances (RoHS), adopted by the European Union. If we are unable to locate alternate demand for these and other non-compliant components, we may be required to write off or write down this inventory. If we are required to write off or write down inventory, we may incur an accounting charge that could materially affect our results of operations for the quarter in which such charge occurs.

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 use of contract manufacturers, broadened our product portfolio and increased sales volume in recent years, manufacturing capacity and supply constraints have become increasingly significant issues for us. We have encountered component shortages that have affected our operations and ability to deliver products in a timely manner. 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. In addition, environmental regulations, such as RoHS, have resulted in, and may continue to give rise to, increased demand for compliant components. As a result, we may experience delays of difficulty obtaining compliant components from suppliers. 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 occur or persist, 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 experience delivery delays and may be unable to satisfy our contractual obligations to customers. These delays may cause us to incur liquidated damages to customers and negatively affect our revenue and gross margin. Shortages in component supply or manufacturing capacity could also limit our opportunities to pursue additional growth or revenue opportunities and could harm our business reputation and customer relationships.

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 geographic markets and to a broader customer base, including enterprises, cable operators, wireless operators and federal, state and local governments. We have less experience in these markets and believe, in order to succeed in these markets, we must develop and manage new sales channels and distribution arrangements. We expect these relationships to be an increasingly important part of the growth of our business and our efforts to increase revenue. 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. We may expend time, money and other resources on channel relationships that are ultimately unsuccessful. 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 revenue.

We may experience 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 products and could affect customer acceptance of such products. Unexpected intellectual property disputes, failure of critical design elements, and other execution risks may delay or even prevent the introduction of these products. Our development efforts may also be affected, particularly in the near term, by the transfer of some of our research and development activity to our facility in India. Modification of research and development strategies and changes in allocation of resources could be disruptive to our development efforts. 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 must manage our relationships with contract manufacturers effectively to ensure that our manufacturing and production requirements are met.

We rely on contract manufacturers to perform the majority of the manufacturing operations for our products and components and we are increasingly utilizing overseas suppliers, particularly in Asia. The qualification of our contract manufacturers is a costly and time-consuming process, and these manufacturers build products for other companies, including our competitors. We are constantly reviewing our manufacturing capability, including the work of our contract manufacturers, 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 contract manufacturer to another, to better meet our production needs. Efforts to transfer to a new contract manufacturer or consolidate our use of suppliers may result in temporary increases in inventory volumes purchased in order to ensure continued supply. We may not effectively manage these contract manufacturer transitions and our new contract manufacturers may not perform as well as expected. Our reliance upon contract manufacturers could also expose us to risks that could harm our business related to difficulties with lead times, on-time delivery, quality assurance and product changes required to meet evolving environmental standards and regulations. These risks can result in strategic harm to our business, including delays affecting our time to market for new or enhanced products. In addition, we do not have contracts in place with some of these providers and do not have guaranteed supply of components or manufacturing capacity. Our inability to effectively manage our relationships with our contract manufacturers, particularly overseas, could negatively affect our business and results of operations.

We depend on sole and limited source suppliers for our product components and the loss of a source or lack of availability of key components could increase our costs and harm our customer relationships.

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. As a result of this concentration in our supply chain, particularly for optical components, our business and operations would be negatively affected if our suppliers were to experience any significant disruption affecting the price, quality, availability or timely delivery of components. Concentration in our supply chain can exacerbate our exposure to risks associated with vendors' discontinuing the manufacture of certain components for our products. The loss of a source, or lack of availability, of key components could require us to redesign products that use those components, which would increase our costs and negatively affect our product gross margin. The partial or complete loss of a sole or limited source supplier could result in lost revenue, added costs and deployment delays that could harm our business and customer relationships.

Our failure to manage our relationships with service delivery 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 rely upon third party service delivery partners for the installation of our equipment in some larger network builds, which often include more onerous customization, installation, testing and acceptance terms. In order to ensure the timely installation of our products and satisfaction of 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. 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 revenue in cases where revenue recognition is dependent upon product installation, testing and acceptance;
- our services revenue and gross margin may be adversely affected; and
- our relationship with customers could suffer.

Difficulties with service delivery partners could cause us to continue to transition a larger share of deployment and other services from third parties to internal resources, thereby increasing our related fixed costs and negatively affecting our services gross margin and results of operations.

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 product development into India and the manufacture of products and components to contract manufacturers in Asia. These and other international operations could expose us to a lower level of intellectual property protection than in the United States. 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. From time to time we have also 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 infringement assertions 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. Intellectual property infringement claims can also require us to pay substantial royalties, enter into license agreements or develop non-infringing technology. Accordingly, the costs associated with third party intellectual property claims could adversely affect our business, results of operations and financial condition.

Our international operations could expose us to additional risks 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. We have also established a major development center in India and are increasingly relying upon overseas suppliers, particularly in Asia, for sourcing of components and contract manufacturing of our products. We expect that our international activities will be dynamic in the near term, and we may enter new markets and withdraw from or reduce operations in others. 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 economic changes in countries outside the United States;
- less protection for intellectual property rights in some countries;
- adverse tax and customs consequences, particularly as related to transfer-pricing issues;
- social, political and economic instability;
- trade protection measures, export compliance, qualification to transact business and other regulatory requirements;
- effects of changes in currency exchange rates; and
- natural disasters and epidemics.

Our use and reliance upon development resources in India may expose us to unanticipated costs or liabilities.

We have established a development center in India and expect to continue to increase hiring of personnel for this facility. We have limited experience working with development resources in India and there is no assurance that our plan will enable us to achieve meaningful cost reductions or greater resource efficiency. Further, our development efforts and other operations in India involve significant risks, including:

- difficulty hiring and retaining appropriate engineering resources due to increased competition for such resources and resulting wage inflation;
- 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 international 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 related to our operations in India could expose us to increased expense, impair our development efforts, harm our competitive position and damage our reputation.

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.

In the course of our sales to customers, we may have difficulty collecting receivables and could be exposed to risks associated with uncollectible accounts. We may be exposed to similar risks relating to third party resellers and other sales channel partners. 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 could 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.

Efforts to restructure our operations and align our resources with market opportunities could disrupt our business and affect our results of operations.

Over the last several years, we have taken steps, including reductions in force, office closures, and internal reorganizations to reduce the size and cost of our operations and to better match our resources with our market opportunities. We may take similar steps in the future to improve efficiency and match our resources with market opportunities. Any such changes could be disruptive to our business and may result in the recording of accounting charges. These include inventory and technology-related write-offs, workforce reduction costs and charges relating to consolidation of excess facilities. If we are required to take a substantial charge related to any future restructuring activities, our results of operations would be adversely affected in the period in which we take such charge.

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

Competition to attract and retain highly skilled technical and other personnel with experience in our industry is increasing in intensity and our employees have been the subject of targeted hiring by our competitors. We may experience difficulty retaining and motivating existing employees and attracting qualified personnel to fill key positions. It may be difficult to replace members of our management team or other key personnel, and the loss of such individuals could be disruptive to our business. 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. If we are unable to attract and retain qualified personnel, we may be unable to manage our business effectively.

We may be required to assume warranty, service, development 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 and original equipment manufacturer 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, service and development 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, some of the companies whose products we resell are relatively small companies with limited financial resources. If they are unable to satisfy these obligations, 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, development and other unexpected obligations in connection with our resale of complementary products of other companies.

Strategic acquisitions and investments may expose us to increased costs and unexpected liabilities.

We may acquire or make strategic investments in other companies to add or expand the markets we address and diversify our customer base. We may also engage in these transactions to acquire or accelerate the development of products incorporating new technologies sought after by our customers. 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 projects;
- 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 required to take further write-downs of goodwill and other intangible assets.

As of July 31, 2007, 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 July 31, 2007, we had $69.5 million of other intangible assets on our balance sheet. The amount primarily reflects purchased technology from our acquisitions. At July 31, 2007, goodwill and other intangible assets represented approximately 12.5% 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 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 expense 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 expect to transact additional business in currencies other than the U.S. dollar. As a result, we will be subject to the possibility of greater effects 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 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. Compliance with these requirements has resulted in, and is likely to continue to result in, significant costs and the commitment of time and operational resources. 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 for any period, or on an ongoing basis. If we or our independent registered public accounting firms are unable to assert that our internal controls over financial reporting are effective 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.

Obligations associated with our outstanding indebtedness on our convertible notes may adversely affect our business.

At July 31, 2007, indebtedness on our outstanding convertible notes totaled $1.3 billion in aggregate principal, of which $542.3 million in aggregate principal amount on our 3.75% convertible notes becomes due and payable on February 1, 2008. Our indebtedness and repayment obligations could have important negative consequences, including:

- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing;
- reducing the availability of cash resources available for other purposes, including capital expenditures;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete; and
- placing us at a possible competitive disadvantage to competitors that have better access to capital resources.

We may also add additional indebtedness such as equipment loans, working capital lines of credit and other long term debt.

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

Not applicable.

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

Additional disclosures that would otherwise be required pursuant to Form 8-K:

Item 5.02 – Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

Directors' Restricted Stock Deferral Plan

On August 29, 2007, the Board of Directors, upon the recommendation of its Governance and Nominations Committee, adopted the Directors' Restricted Stock Deferral Plan. The plan allows non-employee directors to defer receipt of all or a portion of the shares underlying restricted stock unit awards granted in connection with their service on the Board. Generally, deferral elections may be made as to awards granted in the calendar year following the election and thereafter. Directors can elect the amount deferred, the deferral period and the method of distribution for the shares. If a director elects to defer any portion of an award, upon the vesting of that award, Ciena will credit a stock account with the amount deferred. The participating director's account will further be credited with amounts equal to any dividends or other distributions, if and when authorized by the Board, and paid on our common stock. There are no other investment options under the plan. All such accounts will be distributed in shares of our common stock, with any partial shares being distributed in cash. Distributions may be made in a lump sum or installments, as designated by the participating director at the time of election, subject to early distribution in a lump sum in the event of the participant's death or termination of service, a change in control of Ciena or the termination of the plan. The plan is included as Exhibit 10.1 to this report and is incorporated herein by reference.

Amendment to Change in Control Severance Agreements

On August 28, 2007, the Compensation Committee of Ciena's Board of Directors approved an amendment to the change in control severance agreements previously entered into with our executive officers, including the following named executive officers from our most recent proxy statement: Gary B. Smith, Joseph R. Chinnici, Stephen B. Alexander, Arthur D. Smith and Michael G. Aquino.

The existing agreements provide for the payment of severance benefits in the event that employment is terminated by Ciena or any successor entity without cause, or, by the officer for good reason, within one year following a change in control of Ciena (a "covered termination"). The agreements also provide for the conversion of certain performance-based stock awards into awards with time-based vesting upon a change in control.

The purpose of the amendment was to bring the existing agreements into compliance with the final regulations issued under Section 409A of the Internal Revenue Code ("Section 409A"). Section 409A applies to arrangements that provide for the payment of deferred compensation, including severance arrangements.

The amendment modifies the definition of "good reason" to comply with Section 409A by, among other things, including the requirement of timely notice by the officer of any condition covered by the good reason definition, and affording Ciena an opportunity to cure such condition. The amendment also adds a provision that, if the officer is a "specified employee" under Section 409A, and payments due upon a covered termination would otherwise result in additional taxation under Section 409A, then payment shall be made on the date which is the earlier of the officer's death or six months after the date of the officer's termination. Lastly, the amendment clarifies the mechanics for the conversion of equity awards with performance-based vesting conditions into time-based vesting upon a change in control.

A copy of the amendment to the change of control severance agreement entered into between Ciena and Gary B. Smith on August 30, 2007 is filed as Exhibit 10.2 to this report and incorporated herein. A copy of the form of amendment to the change of control severance agreement entered into between Ciena and its other executive officers is filed as Exhibit 10.3 to this report and incorporated herein.

Item 5.03 – Amendment and Restatement of Bylaws

On August 29, 2007, the Board of Directors, upon the recommendation of its Governance and Nominations Committee, amended and restated Ciena's bylaws as described below. These amendments became effective as of the August 29, 2007 approval of the Board.

Advance Notice Provision. The amended bylaws add the section entitled "Notice of Stockholder Business and Nominations," as set forth in Article I, Section 4. This section specifies the process for bringing business before meetings of stockholders and the process for nominating directors. The amended bylaws describe the proper written form and contents of a notice of a stockholder proposal and implement a deadline by which a stockholder wishing to bring business or other proposals before a meeting of stockholders or wishing to nominate a person for election to the board of directors must notify Ciena. For a stockholder's proposal or nomination to be brought before an annual meeting, such stockholder's written notice must be delivered to the corporate secretary at Ciena's principal executive offices not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the preceding year's annual meeting. For a special meeting called for the purpose of electing one or more directors, stockholder nominations must be delivered not earlier than the close of business on the 120th day prior to such meeting and not later than the close of business on the later of the 90th day prior to such meeting or the 10th day following the public announcement of the special meeting. As a result of this amendment, proposals for the 2008 annual meeting of stockholders submitted outside of the provisions of the SEC's Rule 14a-8 will be considered untimely if submitted after December 15, 2007.

Majority Vote Standard for Uncontested Elections. The amended bylaws provide for the implementation of a majority vote standard in uncontested director elections as set forth in Article I, Section 8. Previously, the bylaws provided for election by plurality vote. Since 2006, however, pursuant to its Principles of Corporate Governance ("Governance Principles"), Ciena has provided for election of directors in uncontested elections by majority vote.

The amended bylaws provide that, other than in a contested election (*i.e.*, an election in which the number of candidates exceeds the number of directors to be elected), each director shall be elected by the vote of the majority of the votes cast at any meeting for the election of directors at which a quorum is present. A majority of the votes cast means that the number of votes cast "for" a director's election exceeds the number of votes cast "against" that director's election. Votes cast exclude "abstentions" and any "broker non-votes." In a contested election, however, directors will continue to be elected by plurality vote.

Previously, Ciena's Governance Principles provided for a director to tender his or her resignation following certification of a vote in which he or she received a greater number of votes "withheld" than cast "for" election. Under the amended bylaws, and as a condition of nomination for election, incumbent directors are required to submit an irrevocable resignation that becomes effective only upon the director's failure to receive a majority vote in an uncontested election and the Board's acceptance of such resignation.

If an incumbent director fails to receive a majority of the votes cast in an uncontested election, the Governance and Nominations Committee of the Board will make a recommendation to the Board as to whether to accept or reject the resignation, or to take any other action. The Board will accept, reject, or otherwise act on the resignation, taking into account the committee's recommendation, and publicly disclose its decision within 90 days from the date of certification of the election results.

The Committee in making its recommendation, and the Board in making its decision, may each consider any factors or other information that it considers to be relevant. The director whose resignation is being considered shall not participate in the recommendation of the Committee or the decision of the Board. If a director's resignation is accepted by the Board, or if a non-incumbent nominee for director is not elected, then the Board may fill any resulting vacancy or may decrease the size of the Board, in each case pursuant to the provisions of the bylaws. If an incumbent director's resignation is not accepted by the Board, such director shall continue to serve as a member of the class to which such director was nominated for election, until the next succeeding annual meeting and until his or her successor is duly elected, or his or her earlier resignation or removal.

Inspector of Elections and Conduct of Meetings. Sections 9 and 10 of Article I of the bylaws have been amended to clarify the responsibilities of the inspector of elections and to address, and authorize the Chairman to set certain rules and procedures relating to the conduct of stockholder meetings.

Terms of Directors Elected by the Board to Fill Vacancies. As amended, Article II, Section 1(B) of the bylaws limits the term of office of any director elected by the Board to fill a vacancy until the next annual meeting. Previously, Ciena's Governance Principles required stockholder ratification at the next annual meeting of any director elected by the Board to fill a vacancy.

Director resignation, retirement or refusal to stand for reelection. As amended, Article II, Section 1(D) requires that directors submit any intent to resign, retire or refuse to stand for reelection in writing to the corporate secretary in order to be effective.

Appointment of corporate officers. As amended, Article III, Section 1 deletes the previous requirement that Ciena's corporate officers be appointed by the Board annually.

Uncertificated Shares. As amended, Article IV, Section 1 of the bylaws expressly allows for the issuance of uncertificated shares, allowing the Board to determine which classes or series of stock, if any, will be uncertificated. The amendment to the bylaws also provides that each registered stockholder of shares represented by certificates shall be entitled to a stock certificate upon written request to Ciena's transfer agent or registrar.

Determination of Record Date. As amended, Article IV, Section 5 of the bylaws makes clarifying changes with regard to setting of a record date for meeting and non-meeting shareholder actions. The amendment minimum or maximum time periods permitted for setting the record date.

The amendments to the bylaws also include some modifications to facilitate the use of electronic and remote communications and other ministerial changes. The amended and restated bylaws are included as Exhibit 3.2 to this report on Form 10-Q, and are incorporated herein by reference. In connection with the amendments to the bylaws, the Board also approved conforming amendments to the Governance Principles. A copy of the amended Governance Principles is available on the corporate governance page of Ciena's website at www.ciena.com.*

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* Internet addresses are provided for informational purposes only and are not intended to be hyperlinks.

Item 6. Exhibits

Exhibit	Description
3.1	Amended and Restated Bylaws, effective as of August 29, 2007
10.1	Directors Restricted Stock Deferral Plan*
10.2	Amendment #1 to Amended and Restated Change in Control Severance Agreement with Gary B. Smith*
10.3	Form of Amendment #1 to Amended and Restated Change in Control Severance Agreement with Executive Officers*
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: August 31, 2007

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

Date: August 31, 2007

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

EXHIBIT 3.1

Amended and Restated By-Laws

of

Ciena Corporation

ARTICLE I

Stockholders

Section 1. Annual Meeting. If required by applicable law, an annual meeting of the stockholders of the Corporation shall be held on such date, at such time and at such place, if any, within or without the State of Delaware as may be designated by the Board of Directors, for the purpose of electing directors and for the transaction of such other business as may be properly brought before the meeting.

Section 2. Special Meetings. Except as otherwise provided in the Certificate of Incorporation, a special meeting of the stockholders of the Corporation may be called at any time only (1) by the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board for adoption), or (2) by the holders of not less than ten percent of all the shares entitled to cast votes at the meeting. Any special meeting of the stockholders shall be held on such date, at such time and at such place, if any, within or without the State of Delaware as the Board of Directors may designate. At a special meeting of the stockholders, no business shall be transacted and no corporate action shall be taken other than that stated in the notice of the meeting unless all of the stockholders are present in person or by proxy, in which case any and all business may be transacted at the meeting even though the meeting is held without notice.

Section 3. Notice of Meetings. Except as otherwise provided in these By-Laws or by law, a written notice of each meeting of the stockholders shall be given not less than ten nor more than sixty days before the date of the meeting to each stockholder of the Corporation entitled to vote at such meeting at his address as it appears on the records of the Corporation. The notice shall state the place, if any, date and hour of the meeting, the means of remote communications, if any, by which stockholders and proxy holders may be deemed present in person and vote at such meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

Section 4. Notice of Stockholder Business and Nominations.

(A) Annual Meetings of Stockholders.

(1) Nominations of persons for election to the Board of Directors and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders only:

(a) pursuant to the Corporation's notice of meeting (or any supplement thereto),

(b) by or at the direction of the Board of Directors, or

(c) by any stockholder of the Corporation who was a stockholder of record of the Corporation at the time the notice provided for in this Section 4 of this Article I is delivered to the Secretary of the Corporation, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Section 4.

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (c) of paragraph (A)(1) of this Section 4, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and any such proposed business other than the nominations of persons for election to the Board of Directors must constitute a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the ninetieth day nor earlier than the close of business on the one hundred twentieth day prior to the first anniversary of the preceding year's annual meeting (provided, however, that in the event that the date of the annual meeting is more than thirty days before or more than seventy days after such anniversary date, notice by the stockholder must be so delivered not earlier than the close of business on the one hundred twentieth day prior to such annual meeting and not later than the close of business on the later of the ninetieth day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made by the Corporation). In no event shall the public announcement of an adjournment or postponement of an annual meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above.

(3) The stockholder's notice required by paragraph (A)(2) of this Section 4 shall set forth:

(a) as to each person whom the stockholder proposes to nominate for election as a director (i) all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to and in accordance with Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and (ii) such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected;

(b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend these By-Laws, the language of the proposed amendment), the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and

(c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made:

(i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner, (ii) the class and number of shares of capital stock of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner,

(iii) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business or nomination, and

(iv) a representation whether the stockholder or the beneficial owner, if any, intends or is part of a group which intends (a) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Corporation's outstanding capital stock required to approve or adopt the proposal or elect the nominee and/or (b) otherwise to solicit proxies from stockholders in support of such proposal or nomination.

(4) The foregoing notice requirements of this Section 4 shall be deemed satisfied by a stockholder if the stockholder has notified the Corporation of his or her intention to present a proposal or nomination at an annual meeting in compliance with applicable rules and regulations promulgated under the Exchange Act and such stockholder's proposal or nomination has been included in a proxy statement that has been prepared by the Corporation to solicit proxies for such annual meeting. The Corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine the eligibility of such proposed nominee to serve as a director of the Corporation.

(5) Notwithstanding anything in the second sentence of paragraph (A)(2) of this Section 4 to the contrary, in the event that the number of directors to be elected to the Board of Directors at an annual meeting is increased and there is no public announcement by the Corporation naming the nominees for the additional directorships at least one hundred days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Section 4 shall also be considered timely, but only with respect to nominees for the additional directorships, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the tenth day following the day on which such public announcement is first made by the Corporation.

(B) Special Meetings of Stockholders.

(1) Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting.

(2) Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (1) by or at the direction of the Board of Directors, or (2) provided that the Board of Directors has determined that directors shall be elected at such meeting, by any stockholder of the Corporation who is a stockholder of record at the time the notice provided for in this Section 4 of this Article I is delivered to the Secretary of the Corporation, who is entitled to vote at the meeting and upon such election and who complies with the notice procedures set forth in this Section 4.

(3) In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board of Directors, any such stockholder entitled to vote in such election of directors may nominate a person or persons (as the case may be) for election to such position(s) as specified in the Corporation's notice of meeting, if the stockholder's notice required by paragraph (A)(2) of this Section 4 shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the close of business on the one hundred twentieth day prior to such special meeting and not later than the close of business on the later of the ninetieth day prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall the public announcement of an adjournment or postponement of a special meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above.

(C) General.

(1) Only such persons who are nominated in accordance with the procedures set forth in this Section 4 shall be eligible to be elected at an annual or special meeting of stockholders of the Corporation to serve as directors, and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 4.

(2) Except as otherwise provided by law, the chairman of the meeting shall have the power and duty

(a) to determine whether a nomination, or any business proposed to be brought before the meeting, was made or proposed, as the case may be, in accordance with the procedures set forth in this Section 4 (including whether the stockholder or beneficial owner, if any, on whose behalf the nomination or proposal is made solicited (or is part of a group which solicited) or did not so solicit, as the case may be, proxies in support of such stockholder's nominee or proposal in compliance with such stockholder's representation as required by clause (A)(3)(c)(iv) of this Section 4) and

(b) if any proposed nomination or business was not made or proposed in compliance with this Section 4, to declare that such nomination shall be disregarded or that such proposed business shall not be transacted.

(3) Notwithstanding the foregoing provisions of this Section 4, unless otherwise required by law, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual or special meeting of stockholders of the Corporation to present a nomination or proposed business, such nomination shall be disregarded, and such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the Corporation.

(4) For purposes of this Section 4, to be considered a qualified representative of the stockholder, a person must be authorized by a writing executed by such stockholder or an electronic transmission delivered by such stockholder to act for such stockholder as proxy at the meeting of stockholders and such person must produce such writing or electronic transmission, or a reliable reproduction of the writing or electronic transmission, at the meeting of stockholders.

(5) For purposes of this Section 4, "public announcement" shall include disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(6) Notwithstanding the foregoing provisions of this Section 4, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 4. Nothing in this Section 4 shall be deemed to affect any rights (a) of stockholders to request inclusion of proposals or nominations in the Corporation's proxy statement pursuant to applicable rules and regulations promulgated under the Exchange Act, or (b) of the holders of any series of Preferred Stock to elect directors pursuant to any applicable provisions of the Certificate of Incorporation.

Section 5. Quorum. At any meeting of the stockholders, the holders of a majority in voting power of the total outstanding shares of stock of the Corporation entitled to vote at such meeting, present in person or represented by proxy, shall constitute a quorum of the stockholders for all purposes, unless the representation of a larger number of shares shall be required by law, by the Certificate of Incorporation or by these By-Laws, in which case the representation of the number of shares so required shall constitute a quorum; provided that at any meeting of the stockholders at which the holders of any class of stock of the Corporation shall be entitled to vote separately as a class, the holders of a majority in voting power of the total outstanding shares of such class, present in person or represented by proxy, shall constitute a quorum for purposes of such class vote unless the representation of a larger number of shares of such class shall be required by law, by the Certificate of Incorporation or by these By-Laws.

Section 6. Adjourned Meetings. Whether or not a quorum shall be present in person or represented at any meeting of the stockholders, the holders of a majority in voting power of the shares of stock of the Corporation present in person or represented by proxy and entitled to vote at such meeting may adjourn from time to time; provided, however, that if the holders of any class of stock of the Corporation are entitled to vote separately as a class upon any matter at such meeting, any adjournment of the meeting in respect of action by such class upon such matter shall be determined by the holders of a majority in voting power of the shares of such class present in person or represented by proxy and entitled to vote at such meeting. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the stockholders, or the holders of any class of stock entitled to vote separately as a class, as the case may be, may transact any business which might have been transacted by them at the original meeting. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the adjourned meeting.

Section 7. Organization.

(A) The Chairman of the Board of Directors, the President or, in their absence, a Vice President shall call meetings of the stockholders to order, and shall act as chairman of such meetings. In the absence of the Chairman of the Board of Directors, the President and all of the Vice Presidents, the holders of a majority in number of the shares of stock of the Corporation present in person or represented by proxy and entitled to vote at such meeting shall elect a chairman.

(B) The Secretary of the Corporation shall act as Secretary of meetings of the stockholders; but in the absence of the Secretary, the chairman may appoint any person to act as Secretary of the meeting. It shall be the duty of the Secretary to prepare and make, at least ten days before every meeting of stockholders, a complete list of stockholders entitled to vote at such meeting, arranged in alphabetical order and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open for any purpose germane to the meeting for a period of at least ten days prior to the meeting (i) on a reasonably accessible electronic network, provided that the information required to gain access to the list is provided with the notice of the meeting, or (ii) during ordinary business hours at the principal place of business of the Corporation. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof and subject to the inspection of any stockholder who is present.

Section 8. Voting.

(A) Except as otherwise provided in the Certificate of Incorporation or by law, each stockholder shall be entitled to one vote for each share of the capital stock of the Corporation registered in the name of such stockholder upon the books of the Corporation. Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for him by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. When directed by the presiding officer or upon the demand of any stockholder, the vote upon any matter before a meeting of stockholders shall be by ballot.

(B) Except as otherwise provided in this Section 8 of Article I, each director shall be elected by the vote of the majority of the votes cast with respect to that director's election at any meeting for the election of directors at which a quorum is present. Notwithstanding the foregoing, if, as of the tenth day preceding the date the Corporation first mails its notice of meeting for such meeting to the stockholders of the Corporation, the number of nominees exceeds the number of directors to be elected (a "Contested Election"), the directors shall be elected by the vote of a plurality of the votes cast. For purposes of this Section 8, a majority of votes cast shall mean that the number of votes cast "for" a director's election exceeds the number of votes cast "against" that director's election (with "abstentions" and "broker nonvotes" not counted as a vote cast either "for" or "against" that director's election).

(C) In order for any incumbent director to become a nominee of the Board of Directors for further service on the Board of Directors, he or she must submit an irrevocable resignation, which shall become effective only if (i) that person shall not receive a majority of the votes cast in an election that is not a Contested Election, and (ii) the Board of Directors determines to accept the resignation in accordance with the policies and procedures adopted by the Board of Directors for such purpose. In the event an incumbent director fails to receive a majority of the votes cast in an election that is not a Contested Election, the Governance and Nominations Committee, or such other committee designated by the Board of Directors pursuant to Section 7 of Article II of these By-Laws, shall make a recommendation to the Board of Directors as to whether to accept or reject the resignation of such incumbent director, or whether other action should be taken. The Board of Directors shall act on the resignation, taking into account the committee's recommendation, and within ninety days following certification of the election results publicly disclose, by a press release and an appropriate filing with the Securities and Exchange Commission, its decision regarding the resignation, and, if the resignation is rejected, the rationale behind the decision.

(D) If the Board of Directors accepts a director's resignation pursuant to this Section 8 of this Article I, or if a nominee for director is not elected and the nominee is not an incumbent director, then the Board of Directors may fill the resulting vacancy or may decrease the size of the Board of Directors pursuant to the provisions of these By-Laws.

(E) Shares of the capital stock of the Corporation belonging to the Corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other corporation is held, directly or indirectly, by the Corporation, shall neither be entitled to vote nor be counted for quorum purposes.

Section 9. Inspectors of Election. The Corporation may, and shall if required by law, in advance of any meeting of stockholders, appoint one or more inspectors of election, who may be employees of the Corporation, to act at the meeting or any adjournment thereof and to make a written report thereof. The Corporation may designate one or more persons as alternate inspectors to replace any inspector who fails to act. In the event that no inspector so appointed or designated is able to act at a meeting of stockholders, the chairman of the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath to execute faithfully the duties of inspector with strict impartiality and according to the best of his or her ability. The inspector or inspectors so appointed or designated shall (i) ascertain the number of shares of capital stock of the Corporation outstanding and the voting power of each such share, (ii) determine the shares of capital stock of the Corporation represented at the meeting and the validity of proxies and ballots, (iii) count all votes and ballots, (iv) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors, and (v) certify their determination of the number of shares of capital stock of the Corporation represented at the meeting and such inspectors' count of all votes and ballots. Such certification and report shall specify such other information as may be required by law. In determining the validity and counting of proxies and ballots cast at any meeting of stockholders of the Corporation, the inspectors may consider such information as is permitted by applicable law. No person who is a candidate for an office at an election may serve as an inspector at such election.

Section 10. Conduct of Meetings. The date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting shall be announced at the meeting by the chairman of the meeting. The Board of Directors may adopt by resolution such rules and regulations for the conduct of the meeting of stockholders as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations as adopted by the Board of Directors, the chairman of any meeting of stockholders shall have the right and authority to convene and to adjourn the meeting, to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the chairman of the meeting, may include, without limitation, the following: (i) the establishment of an agenda or order of business for the meeting; (ii) rules and procedures for maintaining order at the meeting and the safety of those present; (iii) limitations on attendance at or participation in the meeting to stockholders of record of the Corporation, their duly authorized and constituted proxies or such other persons as the chairman of the meeting shall determine; (iv) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (v) limitations on the time allotted to questions or comments by participants. The chairman at any meeting of stockholders, in addition to making any other determinations that may be appropriate to the conduct of the meeting, shall, if the facts warrant, determine and declare to the meeting that a matter or business was not properly brought before the meeting and if such chairman should so determine, such chairman shall so declare to the meeting and any such matter or business not properly brought before the meeting shall not be transacted or considered. Unless and to the extent determined by the Board of Directors or the chairman of the meeting, meetings of stockholders shall not be required to be held in accordance with the rules of parliamentary procedure.

Section 11. Consent of Stockholders in Lieu of Meeting. Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing by such stockholders.

ARTICLE II

Board of Directors

Section 1. Number and Term of Office.

(A) The number of directors shall be fixed from time to time exclusively by the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board for adoption). The directors shall be divided into three classes with the term of office of the first class (Class I) to expire at the 1998 annual meeting of stockholders; the term of office of the second class (Class II) to expire at the 1999 annual meeting; the term of office of the third class (Class III) to expire at the 2000 annual meeting; and thereafter for each such term to expire at each third succeeding annual meeting of stockholders after such election. The initial allocation of existing directors among the classes shall be made by determination of the Board of Directors. Subject to the rights of the holders of any series of Preferred Stock then outstanding, a vacancy resulting from the removal of a director by the stockholders as provided in subparagraph (C) below may be filled at a special meeting of the stockholders held for that purpose. All directors shall hold office until the expiration of the term of the class to which they were elected, and until their respective successors are elected, except in the case of the death, resignation, or removal of any director.

(B) Subject to the rights of the holders of any series of Preferred Stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation or other cause (other than removal from office by a vote of the stockholders) may be filled only by a majority vote of the directors then in office, though less than a quorum. Notwithstanding the last sentence of subparagraph (A) above, directors so chosen shall hold office for a term expiring at the next annual meeting of stockholders, and until their respective successors are elected, except in the case of the death, resignation, or removal of any director. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

(C) Subject to the rights of the holders of any series of Preferred Stock then outstanding, any directors, or the entire Board of Directors, may be removed from office at any time, with or without cause, but only by the affirmative vote of the holders of at least a majority of the voting power of all of the then outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class. Vacancies in the Board of Directors resulting from such removal may be filled by a majority of the directors then in office, though less than a quorum, or by the stockholders as provided in subparagraph (A) above. Directors so chosen shall hold office for a term expiring at the next annual meeting of stockholders at which the term of office of the class to which they have been elected expires, and until their respective successors are elected, except in the case of the death, resignation or removal of any director.

(D) Any director who intends to retire, resign, or refuse to stand for re-election must indicate his or her intent to do so in a written notice to the Secretary of the Corporation, and the retirement, resignation, or refusal to stand for re-election shall become effective only as provided in the written notice, or as may subsequently be agreed between the director and the Corporation.

Section 2. Place of Meeting. The Board of Directors may hold its meetings in such place or places, if any, in the State of Delaware or outside the State of Delaware as the Board from time to time shall determine.

Section 3. Regular Meetings. Regular meetings of the Board of Directors shall be held monthly at the offices of the Corporation, or at such other place, if any, as the Board may determine. No notice shall be required for any regular meeting of the Board of Directors; but a copy of every resolution fixing or changing the time or place of regular meetings shall be mailed to every director at least five days before the first meeting held in pursuance thereof.

Section 4. Special Meetings. Special meetings of the Board of Directors shall be held whenever called by direction of the President, or by any two of the directors then in office. Notice of the day, hour and place, if any, of holding of each special meeting shall be given by mailing the same at least two days before the meeting or by causing the same to be transmitted by telegraph, cable, wireless, facsimile transmission, electronic mail or other means of electronic transmission at least one day before the meeting to each director. Unless otherwise indicated in the notice thereof, any and all business other than an amendment of these By-Laws may be transacted at any special meeting, and an amendment of these By-Laws may be acted upon if the notice of the meeting shall have stated that the amendment of these By-Laws is one of the purposes of the meeting. At any meeting at which every director shall be present, even though without any notice, any business may be transacted, including the amendment of these By-Laws.

Section 5. Quorum. Subject to the provisions of Section 2 of this Article II, a majority of the members of the Board of Directors in office (but in no case less than one-third of the total number of directors) shall constitute a quorum for the transaction of business and the vote of the majority of the directors present at any meeting of the Board of Directors at which a quorum is present shall be the act of the Board of Directors. If at any meeting of the Board there is less than a quorum present, a majority of those present may adjourn the meeting from time to time.

Section 6. Organization. A Chairman shall be elected from the directors present to preside at all meetings of the Board of Directors. The Secretary of the Corporation shall act as Secretary of all meetings of the directors; but in the absence of the Secretary, the Chairman may appoint any person to act as Secretary of the meeting.

Section 7. Committees. The Board of Directors may, by resolution, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided by resolution passed by the Board, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and the affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the Certificate of Incorporation, adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation’s property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or amending these By-Laws; and unless such resolution, these By-Laws, or the Certificate of Incorporation expressly so provide, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock.

Section 8. Conference Telephone Meetings. Unless otherwise provided by law, the Certificate of Incorporation or by these By-Laws, the members of the Board of Directors or any committee designated by the Board, may participate in a meeting of the Board or such committee, as the case may be, by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and such participation shall constitute presence in person at such meeting.

Section 9. Consent of Directors or Committee in Lieu of Meeting. Unless otherwise restricted by the Certificate of Incorporation or by these By-Laws, any action required or permitted to be taken at any meeting of the Board of Directors, or any committee thereof, may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in writing, or electronic transmission, and the writing or writings and records of electronic transmission or transmissions are filed with the minutes of proceedings of the Board or committee, as the case may be.

Section 10. Compensation. The amount, if any, that each director shall be entitled to receive as compensation for his services as such shall be fixed from time to time by resolution of the Board of Directors; provided that only non-employee directors may receive cash compensation for services as a director of the Corporation. Directors may receive reimbursement from the Corporation for expenses in connection with their attendance at any meeting of the Board of Directors.

ARTICLE III

Officers

Section 1. Officers. The officers of the Corporation shall be a President, one or more Vice Presidents, a Secretary and a Treasurer, and such additional officers, if any, as shall be elected by the Board of Directors pursuant to the provisions of Section 6 of this Article III. All officers shall hold office at the pleasure of the Board of Directors. Any officer may resign at any time upon written notice to the Corporation. Officers may, but need not, be directors. Any number of offices may be held by the same person. All officers, agents and employees shall be subject to removal, with or without cause, at any time by the Board of Directors. The removal of an officer without cause shall be without prejudice to his contract rights, if any. The election or appointment of an officer shall not of itself create contract rights. All agents and employees other than officers elected by the Board of Directors shall also be subject to removal, with or without cause, at any time by the officers appointing them.

Any vacancy caused by the death of any officer, his resignation, his removal, or otherwise, may be filled by the Board of Directors or the President, and such officer shall hold office at the pleasure of the Board of Directors.

In addition to the powers and duties of the officers of the Corporation as set forth in these By-Laws, the officers shall have such authority and shall perform such duties as from time to time may be determined by the Board of Directors.

Section 2. Powers and Duties of the President. Unless otherwise determined by the Board of Directors, the President shall be the chief executive officer of the Corporation and, subject to the control of the Board of Directors, shall have general charge and control of all its business and affairs and shall perform all duties incident to the office of President. He shall preside at all meetings of the stockholders and at all meetings of the Board of Directors and shall have such other powers and perform such other duties as may from time to time be assigned to him by these By-Laws or by the Board of Directors.

Section 3. Powers and Duties of the Vice Presidents. Each Vice President shall perform all duties incident to the office of Vice President and shall have such other powers and perform such other duties as may from time to time be assigned to him by these By-Laws or by the Board of Directors or the President.

Section 4. Powers and Duties of the Secretary. The Secretary shall keep the minutes of all meetings of the Board of Directors and the minutes of all meetings of the stockholders in books provided for that purpose; he shall attend to the giving or serving of all notices of the Corporation; he shall have custody of the corporate seal of the Corporation and shall affix the same to such documents and other papers as the Board of Directors or the President shall authorize and direct; he shall have charge of the stock certificate books, transfer books and stock ledgers and such other books and papers as the Board of Directors or the President shall direct, all of which shall at all reasonable times be open to the examination of any director, upon application, at the office of the Corporation during business hours; and he shall perform all duties incident to the office of Secretary and shall also have such other powers and shall perform such other duties as may from time to time be assigned to him by these By-Laws or the Board of Directors or the President.

Section 5. Powers and Duties of the Treasurer. The Treasurer shall have custody of, and when proper shall pay out, disburse or otherwise dispose of, all funds and securities of the Corporation which may have come into his hands; he may endorse on behalf of the Corporation for collection checks, notes and other obligations and shall deposit the same to the credit of the Corporation in such bank or banks or depository or depositories as the Board of Directors may designate; he shall sign all receipts and vouchers for payments made to the Corporation; he shall enter or cause to be entered regularly in the books of the Corporation kept for the purpose full and accurate accounts of all moneys received or paid or otherwise disposed of by him and whenever required by the Board of Directors or the President shall render statements of such accounts; he shall, at all reasonable times, exhibit his books and accounts to any director of the Corporation upon application at the office of the Corporation during business hours; and he shall perform all duties incident to the office of Treasurer and shall also have such other powers and shall perform such other duties as may from time to time be assigned to him by these By-Laws or by the Board of Directors or the President.

Section 6. Additional Officers. The Board of Directors may from time to time elect such other officers (who may but need not be directors), including a Controller, Chief Financial Officer, a Chief Technical Officer and one or more Assistant Treasurers, Assistant Secretaries and Assistant Controllers, as the Board may deem advisable, and such officers shall have such authority and shall perform such duties as may from time to time be assigned to them by the Board of Directors or the President. The Board of Directors may from time to time by resolution delegate to any Assistant Treasurer or Assistant Treasurers any of the powers or duties herein assigned to the Treasurer; and may similarly delegate to any Assistant Secretary or Assistant Secretaries any of the powers or duties herein assigned to the Secretary.

Section 7. Giving of Bond by Officers. All officers of the Corporation, if required to do so by the Board of Directors, shall furnish bonds to the Corporation for the faithful performance of their duties, in such penalties and with such conditions and security as the Board shall require.

Section 8. Voting upon Stocks. Unless otherwise ordered by the Board of Directors, the President or any Vice President shall have full power and authority on behalf of the Corporation to attend and to act and to vote, or in the name of the Corporation to execute proxies to vote, at any meetings of stockholders of any corporation in which the Corporation may hold stock, and at any such meetings shall possess and may exercise, in person or by proxy, any and all rights, powers and privileges incident to the ownership of such stock. The Board of Directors may from time to time, by resolution, confer like powers upon any other person or persons.

Section 9. Compensation of Officers. The officers of the Corporation shall be entitled to receive such compensation for their services as shall from time to time be determined by the Board of Directors or its Compensation Committee.

ARTICLE IV

Stock; Seal; Fiscal Year

Section 1. Certificates for Shares of Stock. Shares of the capital stock of the Corporation shall be represented by certificates, provided that the Board of Directors or any committee thereof may provide that some or all of any or all shares of any class or series of such stock shall be uncertificated. Each holder of stock represented by a certificate, upon written request to the transfer agent or registrar of the Corporation, shall be entitled to have a certificate representing the number of shares of the capital stock of the Corporation registered in certificate form signed by, or in the name of the Corporation by the Chairman of the Board, the President or a Vice President, and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary. The certificates for shares of stock of the Corporation shall be in such form, not inconsistent with the Certificate of Incorporation, as shall be approved by the Board of Directors.

In case any officer, transfer agent or registrar who shall have signed, or whose facsimile signature has been placed upon a certificate, shall cease to be such officer, transfer agent or registrar of the Corporation, whether because of death, resignation or otherwise, before such certificate or certificates shall have been issued by the Corporation, such certificate or certificates may nevertheless be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar as of the date of issue.

All certificates for shares of stock shall be consecutively numbered as the same are issued. The name of the person owning the shares represented thereby with the number of such shares and the date of issue thereof shall be entered on the books of the Corporation. Except as hereinafter provided, all certificates surrendered to the Corporation for transfer shall be canceled, and no new certificates shall be issued until former certificates for the same number of shares have been surrendered and canceled.

Section 2. Lost. Stolen or Destroyed Certificates. Whenever a person owning a certificate representing shares of stock of the Corporation alleges that it has been lost, stolen or destroyed, he shall file in the office of the Corporation an affidavit setting forth, to the best of his knowledge and belief, the time, place and circumstances of the loss, theft or destruction, and, if required by the Board of Directors, a bond of indemnity or other indemnification sufficient in the opinion of the Board of Directors to indemnify the Corporation and its agents against any claim that may be made against it or them on account of the alleged loss, theft or destruction of any such certificate or the issuance of a new certificate of stock or uncertificated shares in replacement therefor. Thereupon the Corporation may cause to be issued to such person a new certificate of stock or uncertificated shares in replacement for the certificate alleged to have been lost, stolen or destroyed. Upon the stub of every new certificate so issued shall be noted the fact of such issue and the number, date and the name of the registered owner of the lost, stolen or destroyed certificate in lieu of which the new certificate is issued.

Section 3. Transfer of shares. Shares of stock of the Corporation shall be transferred on the books of the Corporation by the holder thereof, in person or by his attorney duly authorized in writing, upon surrender and cancellation of certificates representing the number of shares of stock to be transferred, except as provided in the preceding section.

Section 4. Regulations. The Board of Directors shall have power and authority to make such rules and regulations as it may deem expedient concerning the issue, transfer and registration of certificates representing shares of stock of the Corporation.

Section 5. Record Date. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, as the case may be, the Board of Directors may fix, in advance, a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date: (1) in the case of determination of stockholders entitled to vote at any meeting of stockholders or adjournment thereof, shall, unless otherwise required by law, not be more than sixty nor less than ten days before the date of such meeting; and (2) in the case of any other action, shall not be more than sixty days prior to such other action.

If no record date is fixed, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held; the record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is necessary, shall be the day on which the first written consent is expressed; and the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 6. Dividends. Subject to the provisions of the Certificate of Incorporation, the Board of Directors shall have power to declare and pay dividends upon shares of stock of the Corporation, but only out of funds available for the payment of dividends as provided by law. Subject to the provisions of the Certificate of Incorporation, any dividends declared upon the stock of the Corporation shall be payable on such date or dates as the Board of Directors shall determine. If the date fixed for the payment of any dividend shall in any year fall upon a legal holiday, then the dividend payable on such date shall be paid on the next day not a legal holiday.

Section 7. Corporate Seal. The Board of Directors shall provide a suitable seal, containing the name of the Corporation, which seal shall be kept in the custody of the Secretary. A duplicate of the seal may be kept and be used by any officer of the Corporation designated by the Board or the President.

Section 8. Fiscal Year. The fiscal year of the Corporation shall be such fiscal year as the Board of Directors from time to time by resolution shall determine.

ARTICLE V

Miscellaneous Provisions

Section 1. Checks, Notes, Etc. All checks, drafts, bills of exchange, acceptances, notes or other obligations or orders for the payment of money shall be signed and, if so required by the Board of Directors, countersigned by such officers of the Corporation and/or other persons as shall from time to time be designated by the Board of Directors or pursuant to authority delegated by the Board.

Checks, drafts, bills of exchange, acceptances, notes, obligations and orders for the payment of money made payable to the Corporation may be endorsed for deposit to the credit of the Corporation with a duly authorized depository by the Treasurer and/or such other officers or persons as shall from time to time be designated by the Treasurer.

Section 2. Loans. No loans and no renewals of any loans shall be contracted on behalf of the Corporation except as authorized by the Board of Directors. When authorized so to do, any officer or agent of the Corporation may effect loans and advances for the Corporation from any bank, trust company or other institution or from any firm, corporation or individual, and for such loans and advances may make, execute and deliver promissory notes, bonds or other evidences of indebtedness of the Corporation. When authorized so to do, any officer or agent of the Corporation may pledge, hypothecate or transfer, as security for the payment of any and all loans, advances, indebtedness and liabilities of the Corporation, any and all stocks, securities and other personal property at any time held by the Corporation, and to that end may endorse, assign and deliver the same. Such authority may be general or confined to specific instances.

Section 3. Waivers of notice. Whenever any notice whatever is required to be given by law, by the Certificate of Incorporation or by these By-Laws to any person or persons, a waiver thereof in writing, signed by the person or persons entitled to the notice, whether before or after the time stated therein, shall be deemed equivalent thereto. The attendance of any person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business on the ground that the meeting is not lawfully called or convened.

Section 4. Offices Outside of Delaware. Except as otherwise required by the laws of the State of Delaware, the Corporation may have an office or offices and keep its books, documents and papers outside of the State of Delaware at such place or places as from time to time may be determined by the Board of Directors or the President.

Section 5. Indemnification of Directors. Officers and Employees. The Corporation shall, to the fullest extent permitted by applicable law from time to time in effect, indemnify any and all persons who may serve or who have served at any time as directors or officers of the Corporation, or who at the request of the Corporation may serve or at any time have served as directors or officers of another corporation (including subsidiaries of the Corporation) or of any partnership, joint venture, trust or other enterprise, from and against any and all of the expenses, liabilities or other matters referred to in or covered by said law. Such indemnification shall continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such a person. The Corporation may also indemnify any and all other persons whom it shall have power to indemnify under any applicable law from time to time in effect to the extent authorized by the Board of Directors and permitted by such law. The indemnification provided by this Article shall not be deemed exclusive of any other rights to which any person may be entitled under any provision of the Certificate of Incorporation, other By-law, agreement, vote of stockholders or disinterested directors, or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office. For purposes of this Section 5, the term “Corporation” shall include constituent corporations referred to in Subsection (h) of the Section 145 of the General Corporation Law of the State of Delaware (or any similar provision of applicable law at the time in effect).

Section 6. Voting as Stockholder. Unless otherwise determined by resolution of the Board of Directors, the President or any Vice President shall have full power and authority on behalf of the Corporation to attend any meeting of stockholders of any corporation in which the Corporation may hold stock, and to act, vote (or execute proxies to vote) and exercise in person or by proxy all other rights, powers and privileges incident to the ownership of such stock. Such officers acting on behalf of the Corporation shall have full power and authority to execute any instrument expressing consent to or dissent from any action of any such corporation without a meeting. The Board of Directors may by resolution from time to time confer such power and authority upon any other person or persons.

Section 7. Construction. In the event of any conflict between the provisions of these By-laws as in effect from time to time and the provisions of the Certificate of Incorporation of the Corporation as in effect from time to time, the provisions of such Certificate of Incorporation shall be controlling.

ARTICLE VI

Amendments

Subject to the Company's Certificate of Incorporation, these By-Laws and any amendment thereof may be altered, amended or repealed, or new By-Laws may be adopted, by the Board of Directors at any regular or special meeting by the affirmative vote of a majority of all of the members of the Board, provided in the case of any special meeting at which all of the members of the Board are not present, that the notice of such meeting shall have stated that the amendment of these By-Laws was one of the purposes of the meeting; but these By-Laws and any amendment thereof, including the By-Laws adopted by the Board of Directors, may be altered, amended or repealed and other By-Laws may be adopted by the holders of a majority of the total outstanding stock of the Corporation entitled to vote at any annual meeting or at any special meeting, provided, in the case of any special meeting, that notice of such proposed alteration, amendment, repeal or adoption is included in the notice of the meeting.

Exhibit 10.1

CIENA CORPORATION
DIRECTORS RESTRICTED STOCK DEFERRAL PLAN

ARTICLE I

PURPOSE

1.1 <u>Purpose</u>. The purpose of this plan, which shall be known as Ciena Corporation Directors Restricted Stock Deferral Plan (the "Plan") is to provide directors of the Company who are not employees of the Company or its subsidiaries with an opportunity to defer the receipt of Shares with respect to Eligible Awards.

ARTICLE II

DEFINITIONS

2.1 <u>Definitions</u>. For purposes of this Plan, the following terms shall have the following meanings:

"Board" means the Board of Directors of the Company.

"Committee" means the Compensation Committee of the Board.

"Company" means Ciena Corporation, a Delaware corporation, or any successor corporation.

"Corporate Transaction" means a "Corporate Transaction" or a similarly defined change of control transaction within the meaning of the Equity Plan.

"Deferral Election" means an election, filed with the Company, pursuant to which a Participant elects to defer delivery and receipt of all or a portion of an Eligible Award***.***

"Designated Deferral Period" shall mean the deferral period selected by the Participant with respect to an Eligible Award, which deferral period shall specify the date on which delivery of Shares with respect to such Eligible Award shall be made or begin. In lieu of a specific date, Participant may provide for the Designated Deferral Period to expire upon Participant's termination of service from the Board.

"Dividend Equivalent Amount" means the amount of dividends or other distributions to shareholders of the Company that a Participant would have received had the Participant's Restricted Stock been actual Shares as of the date of a dividend or other distribution by the Company.

"Eligible Award" means an award of Restricted Stock made, or to be made, under the Equity Plan.

"Equity Plan" means the Ciena Corporation 2000 Equity Incentive Plan or any other equity compensation plan (as amended from time to time) under which Participants receive Eligible Awards.

"Participant" means any director of the Company who is not an employee of the Company or its subsidiaries and who participates in this Plan by timely completing a Deferral Election.

"Plan Year" means each calendar year during the term of this Plan.

"Restricted Stock" means an equity award for Shares granted by the Company to Participant that is subject to vesting conditions or other restrictions, including equity awards in the form of units or a similar arrangement, providing the holder a right to receive Shares pursuant to the terms of an Eligible Award under the Equity Plan.

"Shares" means the common stock, $0.01 par value per share, of the Company.

"Stock Account" means an individual account established for each Participant pursuant to Section 4.3 hereof, with respect to Shares credited to the Participant.

ARTICLE III

PARTICIPATION

3.1 <u>Eligibility and Participation</u>. Directors who shall be eligible to participate in this Plan shall be any director of the Company who is not an employee of the Company or its subsidiaries and who participates in this Plan by timely completing a Deferral Election.

ARTICLE IV

DEFERRAL ELECTIONS

4.1 <u>Deferral Elections</u>. A director who elects to participate in this Plan for any Plan Year shall file a Deferral Election with the Company before the beginning of such Plan Year**,** provided that any director who was not a director during the previous Plan Year may file a Deferral Election with the Company (i) within thirty days after election to the Board; and (ii) prior to the grant of Restricted Stock which is the subject of such Deferral Election. The Deferral Election shall be in the form prescribed by the Committee, and in accordance with such rules and procedures as may be established by the Committee in its sole discretion. Except as otherwise provided in the Plan, a Participant's Deferral Election shall be irrevocable. A Deferral Election shall be deemed to have been made when the completed and executed election form is received and accepted by the Company or its designated agent. Unless it specifies otherwise, a Deferral Election shall be deemed to apply to all subsequent Eligible Awards, provided that a director may file a new Deferral Election and that Deferral Election shall apply to any Eligible Awards in the subsequent Plan Year.

4.2 Effect of Deferral Election. Provided the Participant has timely filed a Deferral Election with the Company with respect to an Eligible Award, the Company will defer the delivery to the Participant of the Shares subject thereto until the end of the Participant's Designated Deferral Period or such other time as this Plan may specify for distribution to be made or begin.

4.3 Stock Accounts. The Committee shall establish and maintain a separate account in the name of each Participant who makes a Deferral Election during the course of his or her participation in the Plan. Each Participant's Stock Account shall consist of the sum of the Shares credited to such Participant's Stock Account. Each Participant's Stock Account shall be adjusted as follows:

(a) As of the date of vesting of an Eligible Award to which a Participant's Deferral Election is applicable, the Participant's Stock Account shall be credited with that number of Shares to which the Deferral Election relates;

(b) As of the date on which Shares are distributed to the Participant in accordance with Section 4.5, the Participant's Stock Account shall be reduced by an equal number of Shares, and fractions thereof, if applicable.

4.4 Dividend Equivalent Amount and Adjustments. As of the date on which a dividend is paid on (or any other distribution is made on account of) Shares, Participant's Stock Account shall be credited with such number of additional Shares and/or fractions thereof equal to the number of Shares and/or fraction thereof that the Dividend Equivalent Amount would have purchased on that date based on the average of the high and low trading prices of the Shares on that date. Any Shares credited to Participant's Stock Account pursuant to this provision shall become subject to the Deferral Election applicable to the Restricted Stock to which the Dividend Equivalent Amount relates. In the event of any stock split, reverse split, combination or other changes that impact the Company's capital structure, or Share status, each Participant's Stock Account and the number of Shares credited thereto shall be equitably adjusted by the Committee in its sole discretion in a manner consistent with the treatment of outstanding equity awards pursuant to the Equity Plan.

4.5 Distribution of Shares from Stock Accounts. Subject to any limitation set forth in this Plan or any other limitations as may be established by the Committee in its sole discretion, a Deferral Election shall specify the manner of distribution with respect to the Eligible Awards that are the subject of such Deferral Election. A Participant may elect to have any Eligible Award that is subject to a Deferral Election distributed in any of the installments options set forth below following the earlier of (i) termination of Participant's service as a director of the Company, or (ii) expiration of the Participant's Designated Deferral Period with respect to such Eligible Award:

(1) a single lump sum, or

(2) three equal or substantially equal annual installments.

Distribution of any fractional Shares shall be satisfied in cash, based on the average of the high and low trading prices of Shares on the business day immediately preceding such distribution. Notwithstanding the foregoing, if a Corporate Transaction occurs or a Participant dies, becomes disabled or otherwise terminates his or her service as a director, a distribution with respect to all the Shares held in Participant's Stock Account shall be made to Participant or Participant's beneficiaries in a single lump sum within thirty days of such event.

ARTICLE V
MISCELLANEOUS

5.1 Beneficiaries. A Participant may designate in writing one or more beneficiaries to receive distributions in the event of the Participant's death by filing with the Company a beneficiary designation on a form provided by the Committee. A Participant may change the designated beneficiary or beneficiaries at any time prior to his or her death by delivering to the Company a new beneficiary designation form; provided, however, any beneficiary designation form received by the Company after the designating Participant's death will be disregarded. If a Participant has not designated a beneficiary, or if no designated beneficiary survives the Participant, distribution shall be made to the Participant's estate.

5.2 Administration. Except for those powers and duties expressly reserved for the Board hereunder, the Committee will have full power to administer the Plan, including the authority:

(a) To make and enforce such rules and regulations as it deems necessary or proper for the efficient administration of Plan;

(b) To interpret the Plan and to decide all matters arising thereunder, including the right to resolve or remedy any ambiguities, errors, inconsistencies or omissions. All such interpretations shall be final and binding on all parties;

(c) To determine the amount of distributions to be made to each Participant and beneficiary or other person in accordance with the provisions of the Plan;

(d) To authorize distributions under the Plan;

(e) To keep such records and submit such filings, elections, applications, returns or other documents or forms as may be required under applicable law;

(f) To appoint such agents, counsel, accountants and consultants as may be desirable in administering the Plan;

(g) To exercise the other powers that are expressly granted to it herein, or that are impliedly necessary for it to carry out any of its responsibilities hereunder; and

(h) By written instrument to delegate any of the foregoing powers to one or more designated officers or employees of the Company or other persons.

All decisions of the Committee or its designees shall be binding upon all Participants and their respective legal representatives, successors and assigns, and any and all persons claiming under or through any of them. No member of the Committee or any of its designees shall be liable to any Participant or to the Company for any determination made within the scope of the administrative and interpretive functions provided in this Plan. No member of the Committee shall participate in any discussion or determination involving his or her own rights, benefits or obligations under this Plan.

5.3 Reports. Until a Participant's entire Stock Account has been distributed in full, the Company will furnish or make available to the Participant, upon request, a report setting forth the status and activity relating to the Stock Account.

5.4 Assignment and Alienation of Benefits. The right of each Participant to any account, benefit, right or distribution hereunder shall not, to the extent permitted by law, be subject in any manner to attachment or other legal process for the debts of such Participant, and no account, benefit, right or distribution shall be subject to anticipation, alienation, sale, pledge, transfer, assignment or encumbrance; provided, however, the Company shall have the unrestricted right to set off against or recover out of any distributions due a Participant, beneficiary or other person at the time such distributions would otherwise have been made hereunder, any amounts owed the Company or any subsidiary of the Company by such Participant, beneficiary or other person.

5.5 Director and Shareholder Status. Nothing in the Plan shall interfere with or limit in any way the right of the Company or its shareholders to terminate any Participant's service as a director, at any time, nor confer upon any Participant any right to continue as a director of the Company or to be nominated for election to the Board at any time. The Plan will not give any person any right or claim to any benefits under the Plan unless such right or claim has specifically accrued under the terms of the Plan. Participation in the Plan shall not create any rights in a Participant (or any other person) as a shareholder of the Company until Shares are registered in the name of and distributed to, the Participant (or such other person).

5.6 Assets. No assets shall be segregated or earmarked in respect of any Shares, Dividend Equivalent Payments or Stock Accounts. The Plan and the crediting of Stock Accounts hereunder shall not constitute a trust and shall be structured solely for the purpose of recording an unsecured contractual obligation. All amounts payable pursuant to the terms of this Plan shall be paid from the general assets of the Company and in no event shall any Participant or beneficiary have any claims or rights to any payment hereunder that are superior to any claims or rights of any general creditor of the Company.

5.7 Taxes. The Company shall not be responsible for the tax consequences under federal, state or local law of any election made by any Participant under the Plan. The Company shall have the right to make required information reporting and/or to withhold or deduct from any distribution to be made pursuant to this Plan, or to otherwise require prior to the distribution of any amount hereunder, payment by the Participant of any federal, state or local taxes required by law to be withheld with respect to any such distribution to the Participant. In addition, to the extent the Company shall be required, prior to the date on which distributions are to be made to a Participant under this Plan, to withhold any taxes in connection with any Shares or Dividend Equivalent Amounts credited to a Participant's accounts under this Plan, the Participant agrees that the Company shall have the right to make such withholding or to require direct payment of such withholding taxes by the Participant to the Company.

5.8 Amendment. Notwithstanding any other provision of this Plan, the Board may amend this Plan at any time for any reason without liability to any Participant, beneficiary or other person for any such amendment or for any other action taken pursuant to this Section 5.8, provided that no such amendment shall be made retroactively in a manner that would deprive any Participant of any rights or benefits which have accrued to his or her benefit under the Plan as of the date such amendment is proposed to be effective, unless such amendment is necessary to comply with applicable law.

5.9 Termination. Notwithstanding any other provision of this Plan, the Board may terminate this Plan at any time for any reason without any liability to any Participant, beneficiary or other person for any such termination or for any other action taken pursuant to this Section 5.9. Following termination of this Plan, and notwithstanding the provisions of any Deferral Election entered into prior to such termination, no additional deferrals may be made hereunder, but all existing Stock Accounts shall be administered in accordance with the Plan, as in effect immediately prior to termination, and shall be distributed in accordance with the terms of this Plan and the applicable Deferral Elections, unless and until the Board elects to accelerate distributions as provided below. At any time on or after the effective date of termination of this Plan, the Board, in its sole discretion, may elect to accelerate the distribution with respect to all Shares in all Stock Accounts. Such distributions shall be made in a lump sum. Upon completion of distributions to all Participants, or beneficiaries, as the case may be, no Participant, beneficiary or person claiming under or through them, will have any claims in respect of this Plan.

5.10 <u>Notices to Committee</u>. The Committee shall designate one or more addresses to which notices and other communications to the Committee or the Company shall be sent with respect to this Plan. No notice or other communication shall be considered to have been given to or received by the Committee or the Company until it has been delivered to ‘such designated addresses.

5.11 <u>No Liability</u>. Participation in the Plan is entirely at the risk of each Participant. Neither the Company, the Committee, the Board nor any other person associated with this Plan shall have any liability for any loss or diminution in the value of Stock Accounts, or for any failure of this Plan to effectively defer recognition of income or to achieve any Participant's desired tax treatment or financial results.

5.12 <u>Facility of Payment</u>. If the Committee determines that a Participant or beneficiary entitled to receive a payment under this Plan is (at the time such payment is to be made) a minor or physically, mentally or legally incompetent to receive such payment and that another person or any institution has legal custody of such minor or incompetent individual, the Committee may cause payment to be made to such person or institution having custody of such Participant or beneficiary. Such payment, to the extent made, shall operate as a complete discharge of obligation by the Committee, the Company and the Board.

5.13 <u>Effective Date</u>. This Plan was adopted by the Board effective as of August 29, 2007 and shall remain in effect until terminated pursuant to Section 5.9.

5.14 <u>Applicable Law</u>. This Plan shall be interpreted under the laws of the State of Delaware.

IN WITNESS WHEREOF, the Company has caused this instrument to be executed by its duly authorized officer as of the 29th day of August, 2007.

Ciena Corporation

By: /S/ Russell B. Stevenson, Jr.
Russell B. Stevenson, Jr.
Sr. Vice President, General Counsel & Secretary

Exhibit 10.2

AMENDMENT 1
TO
AMENDED AND RESTATED CHANGE IN CONTROL SEVERANCE AGREEMENT

This Amendment 1 to Amended and Restated Change in Control Severance Agreement (the "Amendment") is dated as of August 30, 2007, between Ciena Corporation (the "Corporation"), and Gary B. Smith (the "Executive").

WHEREAS, the Executive and the Corporation have previously entered into an Amended and Restated Change in Control Severance Agreement dated as of January 25, 2007 (the "Agreement"); and

WHEREAS, the parties desire to enter into this Amendment to incorporate certain terms that are required or advisable pursuant to Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and to make a clarifying amendment relating to the conversion of performance-based equity awards upon a Triggering Event;

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants and agreements of the parties contained herein and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. Section 1.8 of the Agreement is hereby deleted in its entirety and replaced with the following new Section 1.8:

"'*Good Reason*' means:

(i) removal from, or failure to be reappointed or reelected to the Executive's principal positions immediately prior to the Effective Date (other than as a result of a promotion);

(ii) material diminution in the Executive's position, duties or responsibilities, or the assignment to the Executive of duties that are inconsistent, in a material respect, with the scope of duties and responsibilities associated with the Executive's position immediately prior to the Effective Date;

(iii) material reduction in base salary or award opportunity under any corporate incentive plan (or any successor to any such plan), or a material reduction in the level of participation in long-term incentive, benefit and other plans for senior executives as in effect immediately preceding the Effective Date, or their equivalents;

(iv) relocation of the Executive's principal workplace without the Executive's consent to a location which is more than 50 miles from the Executive's principal workplace on the Effective Date; or

(v) any failure by the Corporation to comply with and satisfy the requirements of Section 7.5, provided that the successor shall have received at least ten days' prior written notice from the Corporation or the Executive of the requirements of Section 7.5;

provided, however that (A) the Executive has provided notice to the Corporation of any of the foregoing conditions within 90 days of the initial existence of the condition; (B) the Corporation has been given at least 30 days to cure such condition; and (C) the Executive actually terminates employment within two years following the initial existence of the condition."

2. Sections 3.4(a) and (b) are hereby deleted in their entirety and replaced with the following:

(a) upon the Effective Date, (i) the Executive's Options that are subject to performance-based vesting, to the extent unvested, shall immediately be converted into Options with time-based vesting conditions, and (ii) the Executive's Performance-Based Restricted Stock, Performance-Adjusted Restricted Stock and any other similar instruments of equity-based compensation that are subject to performance-based vesting, to the extent unvested, shall immediately be converted into Time-Based Restricted Stock; in each case, with vesting as to the equity awards converted above being deemed to have commenced on the date of grant and vesting as to 1/16th of the grant at the end of each three-month period following the date of grant;

(b) upon a Triggering Event, all of the Executive's Options and Time-Based Restricted Stock (including any performance-based equity awards converted pursuant to Section 3.4(a) above), to the extent unvested, shall become immediately vested and exercisable in full; and

3. A new Section 3.4 will be added to the Agreement as follows:

"3.4 Savings Clause. Anything in this Agreement to the contrary notwithstanding, if on the date of termination of Executive's employment with the Corporation, as a result of such termination, Executive would receive any payment that, absent the application of this Section 3.4 would be subject to interest and additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, then no such payment shall be made prior to the date that is the earliest of (1) six months after the date of termination of Executive's employment, (2) the Executive's death, or (3) such other date as will cause such payment not to be subject to such interest and additional tax."

IN WITNESS WHEREOF, the parties have executed and delivered this Amendment.

CIENA CORPORATION

Date: August 30, 2007

By: /s/ Russell B. Stevenson, Jr.
Name: Russell B. Stevenson, Jr.
Title: Sr. Vice President and General Counsel

EXECUTIVE

Date: August 30, 2007

/s/ Gary B. Smith
Name: Gary B. Smith
Title: President and Chief Executive Officer

Exhibit 10.3

AMENDMENT 1
TO
AMENDED AND RESTATED CHANGE IN CONTROL SEVERANCE AGREEMENT

This Amendment 1 to Amended and Restated Change in Control Severance Agreement (the "Amendment") is dated as of September 1, 2007, between Ciena Corporation (the "Corporation"), and __________ (the "Executive").

WHEREAS, the Executive and the Corporation have previously entered into an Amended and Restated Change in Control Severance Agreement (the "Agreement"); and

WHEREAS, the parties desire to enter into this Amendment to incorporate certain terms that are required or advisable pursuant to Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and to make a clarifying amendment relating to the conversion of performance-based equity awards upon a Triggering Event;

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants and agreements of the parties contained herein and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. Section 1.8 of the Agreement is hereby deleted in its entirety and replaced with the following new Section 1.8:

"1.8. '*Good Reason*' means:

(i) removal from, or failure to be reappointed or reelected to the Executive's principal position immediately prior to the Effective Date (other than as a result of a promotion);

(ii) material diminution in the Executive's position, duties or responsibilities, or the assignment to the Executive of duties that are inconsistent, in a material respect, with the scope of duties and responsibilities associated with the Executive's position immediately prior to the Effective Date;

(iii) material reduction in base salary or award opportunity under any corporate incentive plan (or any successor to any such plan), or a material reduction in the level of participation in long-term incentive, benefit and other plans for senior executives as in effect immediately preceding the Effective Date, or their equivalents;

(iv) relocation of the Executive's principal workplace without the Executive's consent to a location which is more than 50 miles from the Executive's principal workplace on the Effective Date; or

(v) any failure by the Corporation to comply with and satisfy the requirements of Section 7.5, provided that the successor shall have received at least ten days' prior written notice from the Corporation or the Executive of the requirements of Section 7.5;

provided, however that (A) the Executive has provided notice to the Corporation of any of the foregoing conditions within 90 days of the initial existence of the condition; (B) the Corporation has been given at least 30 days to cure such condition; and (C) the Executive actually terminates employment within two years following the initial existence of the condition."

2. Sections 3.4(a) and (b) are hereby deleted in their entirety and replaced with the following:

(a) upon the Effective Date, (i) the Executive's Options that are subject to performance-based vesting, to the extent unvested, shall immediately be converted into Options with time-based vesting conditions, and (ii) the Executive's Performance-Based Restricted Stock, Performance-Adjusted Restricted Stock and any other similar instruments of equity-based compensation that are subject to performance-based vesting, to the extent unvested, shall immediately be converted into Time-Based Restricted Stock; in each case, with vesting as to the equity awards converted above being deemed to have commenced on the date of grant and vesting as to 1/16th of the grant at the end of each three-month period following the date of grant;

(b) upon a Triggering Event, fifty percent of the Executive's Options and Time-Based Restricted Stock (including any performance-based equity awards converted pursuant to Section 3.4(a) above), to the extent unvested, shall become immediately vested and exercisable in full; and

3. A new Section 3.6 will be added to the Agreement as follows:

"3.6 Savings Clause. Each of the cash payments provided pursuant to Article 3 of the Agreement shall be treated for purposes of Section 409A of the Code as a right to a series of separate payments. If the Executive is a "specified employee," as such term is defined pursuant to Section 409A of the Code and the regulations and guidance issued thereunder, and to the extent that the cash payments provided pursuant to Article 3 of this Agreement that are made more than two and one-half months after the end of the calendar year in which the Executive's employment terminates but within six months of the Executive's last day of employment exceed two times the applicable limits set forth in Section 401(a)(17) of the Code (such excess amounts, the "Excess Payments"), then such Excess Payments shall not commence until the earlier of the Executive's death or 6 months after the Executive's last day of employment."

IN WITNESS WHEREOF, the parties have executed and delivered this Amendment.

CIENA CORPORATION

Date: ____________________

By: ____________________
Name:
Title:

EXECUTIVE

Date: ____________________

____
Name:
Title:

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: August 31, 2007

/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: August 31, 2007

/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 July 31, 2007 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
August 31, 2007

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 July 31, 2007 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
August 31, 2007

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.