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, 2006

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number: 0-21969

Ciena Corporation
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

Class	Outstanding at August 28, 2006
common stock, $.01 par value	591,071,533

CIENA CORPORATION

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Quarter Ended July 31,		Nine Months Ended July 31,	
	2005	2006	2005	2006
Revenues:				
Products	$ 97,448	$ 137,809	$ 271,366	$ 360,958
Services	13,032	14,690	37,708	43,146
Total revenue	110,480	152,499	309,074	404,104
Costs:				
Products	62,756	70,356	189,447	189,712
Services	10,095	10,479	30,601	29,367
Total cost of goods sold	72,851	80,835	220,048	219,079
Gross profit	37,629	71,664	89,026	185,025
Operating expenses:				
Research and development	34,814	26,190	105,084	84,508
Selling and marketing	30,209	24,903	86,697	78,132
General and administrative	9,493	16,217	26,043	37,359
Amortization of intangible assets	9,653	6,295	30,268	18,885
Restructuring costs	4,355	11,008	15,245	16,037
Long-lived asset impairments	(25)	—	134	(6)
Provision for (recovery of) doubtful accounts, net	2,604	(139)	2,604	(2,990)
Gain on lease Settlement	—	—	—	(11,648)
Total operating expenses	91,103	84,474	266,075	220,277
Loss from operations	(53,474)	(12,810)	(177,049)	(35,252)
Interest and other income, net	7,522	14,045	22,058	34,504
Interest expense	(7,163)	(6,148)	(21,619)	(18,016)
(Loss) gain on equity investments, net	(1,708)	948	(8,986)	215
Gain on extinguishment of debt	3,882	—	3,882	7,052
Loss before income taxes	(50,941)	(3,965)	(181,714)	(11,497)
Provision for income taxes	86	320	1,115	989
Net loss	$ (51,027)	$ (4,285)	$ (182,829)	$ (12,486)
Basic and diluted net loss per common share and dilutive potential common share	$ (0.09)	$ (0.01)	$ (0.32)	$ (0.02)
Weighted average basic common and dilutive potential common shares outstanding	576,331	589,381	573,939	584,977

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

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

	October 31, 2005	July 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 358,012	$ 552,234
Short-term investments	579,531	466,362
Accounts receivable, net	72,786	89,638
Inventories, net	49,333	95,821
Prepaid expenses and other	37,867	43,631
Total current assets	1,097,529	1,247,686
Long-term investments	155,944	187,074
Equipment, furniture and fixtures, net	28,090	28,227
Goodwill	232,015	232,015
Other intangible assets, net	120,324	98,536
Other long-term assets	41,327	37,001
Total assets	$ 1,675,229	$ 1,830,539
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 43,868	$ 39,492
Accrued liabilities	76,491	88,205
Restructuring liabilities	15,492	9,413
Unfavorable lease commitments	9,011	8,008
Income taxes payable	5,785	5,855
Deferred revenue	27,817	22,689
Total current liabilities	178,464	173,662
Long-term deferred revenue	15,701	19,912
Long-term restructuring liabilities	54,285	28,218
Long-term unfavorable lease commitments	41,364	34,880
Other long-term obligations	1,296	1,732
Convertible notes payable	648,752	842,262
Total liabilities	939,862	1,100,666
Commitments and contingencies		
Stockholders' equity:		
Preferred stock — par value $0.01; 20,000,000 shares authorized; zero shares issued and outstanding	—	—
Common stock — par value $0.01; 980,000,000 shares authorized; 580,340,947 and 590,932,298 shares issued and outstanding	5,803	5,909
Additional paid-in capital	5,489,613	5,491,942
Deferred stock compensation	(2,286)	—
Changes in unrealized gains on investments, net	(4,673)	(2,402)
Translation adjustment	(495)	(495)
Accumulated deficit	(4,752,595)	(4,765,081)
Total stockholders' equity	735,367	729,873
Total liabilities and stockholders' equity	$ 1,675,229	$ 1,830,539

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

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

	Nine Months Ended July 31,	
	2005	2006
Cash flows from operating activities:		
Net loss	$ (182,829)	$ (12,486)
Adjustments to reconcile net loss to net cash used in operating activities:		
Early extinguishment of debt	(3,882)	(7,052)
Amortization of premium on marketable securities	12,344	2,058
Non-cash loss from equity investments	8,986	733
Non-cash impairment of long-lived asset	134	—
Depreciation and amortization of leasehold improvements	26,803	13,173
Stock compensation	8,810	10,953
Amortization of intangibles	33,169	21,788
Provision of doubtful accounts	2,604	—
Provision for inventory excess and obsolescence	3,396	6,158
Provision for warranty and other contractual obligations	7,546	10,885
Other	2,072	1,236
Changes in assets and liabilities:		
Accounts receivable	(27,348)	(16,852)
Inventories	(7,229)	(52,646)
Prepaid expenses and other	5,194	1,282
Accounts payable, accrued liabilities and other obligations	(17,789)	(42,744)
Income taxes payable	739	70
Deferred revenue	8,101	(917)
Net cash used in operating activities	(119,179)	(64,361)
Cash flows from investing activities:		
Additions to equipment, furniture, fixtures and intellectual property	(8,935)	(13,332)
Proceeds from sale of equipment, furniture and fixtures	266	—
Restricted cash	(819)	1,347
Purchases of available for sale securities	(490,041)	(403,664)
Maturities of available for sale securities	755,320	485,916
Minority equity investments, net	4,882	948
Net cash provided by investing activities	260,673	71,215
Cash flows from financing activities:		
Proceeds from issuance of 0.25% convertible senior notes payable	—	300,000
Repurchase of 3.75% convertible notes payable	(36,913)	(98,410)
Debt issuance costs	—	(7,990)
Purchase of call spread option	—	(28,457)
Proceeds from issuance of common stock	5,498	22,225
Repayment of notes receivable from stockholders	48	—
Net cash (used) provided by financing activities	(31,367)	187,368
Net increase in cash and cash equivalents	110,127	194,222
Cash and cash equivalents at beginning of period	185,868	358,012
Cash and cash equivalents at end of period	$ 295,995	$ 552,234

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

CIENA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(1) INTERIM FINANCIAL STATEMENTS

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

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

(2) SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

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

Investments

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

Ciena also has certain other minority equity investments in privately held technology companies. These investments are carried at cost because Ciena owns less than 20% of the voting equity and does not have the ability to exercise significant influence over these companies. These investments are inherently high risk as the 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.

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

Concentrations

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

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

Revenue Recognition

Ciena recognizes revenue in accordance with Staff Accounting Bulletin (SAB) No. 104, “Revenue Recognition,” which states that revenue is realized or realizable and earned when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the price to the buyer is fixed 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 Ciena’s communications networking equipment is integrated with software that is essential to the functionality of the equipment. Ciena provides unspecified software upgrades and enhancements related to the equipment through maintenance contracts for these products. For transactions involving the sale of software, revenue is recognized in accordance with SOP 97-2, “Software Revenue Recognition,” including deferral of revenue recognition in instances where vendor specific objective evidence for undelivered elements is not determinable.

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

Revenue Related Accruals

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

Accounts Receivable Trade, Net

Ciena's allowance for doubtful accounts is based on its assessment, on a specific identification basis, of the collectibility of customer accounts. Ciena performs ongoing credit evaluations of its customers and generally has not required collateral or other forms of security from its customers. In determining the appropriate balance for Ciena's allowance for doubtful accounts, management considers each individual customer account receivable in order to determine collectibility. In doing so, management considers creditworthiness, payment history, account activity and communication with such customer. If a customer's financial condition changes, Ciena may be required to take a charge for an allowance for doubtful accounts.

Research and Development

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

Advertising Costs

Ciena expenses all advertising costs as incurred.

Share-Based Compensation Expense

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

Ciena adopted SFAS 123(R) using the modified prospective application transition method, which requires the application of the accounting standard as of November 1, 2005, the first day of Ciena's fiscal year 2006. Ciena's consolidated financial statements as of and for the third quarter of fiscal 2006 reflect the impact of SFAS 123(R). In accordance with the modified prospective application transition method, Ciena's consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). Share-based compensation expense recognized under SFAS 123(R) for the first nine months of fiscal 2006 was $11.0 million, of which $0.2 million was capitalized as part of inventory.

Prior to the adoption of SFAS 123(R), Ciena accounted for share-based awards to employees and directors using the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," as interpreted by FASB Interpretation (FIN) No. 44, "Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25," as allowed under SFAS 123, "Accounting for Stock-Based Compensation." Share-based compensation expense of $8.8 million for the first nine months of fiscal 2005 was solely related to share-based awards assumed through acquisitions and restricted stock unit awards that Ciena had been recognizing in its consolidated statement of operations in accordance with the provisions set forth above. Because the exercise price of Ciena's stock options granted to employees and directors equaled the fair market value of the underlying stock at the grant date, under the intrinsic value method, no share-based compensation expense was otherwise recognized in Ciena's consolidated statement of operations.

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

grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In Ciena's pro forma information required under SFAS 123 for periods prior to fiscal 2006, Ciena accounted for forfeitures as they occurred.

To calculate option-based compensation under SFAS 123(R), Ciena uses the Black-Scholes option-pricing model, which it had previously used for valuation of option-based awards for its pro forma information required under SFAS 123 for periods prior to fiscal 2006. For additional information see Note 14. Ciena's determination of fair value of option-based awards on the date of grant using the Black-Scholes model is affected by Ciena's stock price as well as assumptions regarding a number of subjective variables. These variables include, but are not limited to Ciena's expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors.

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

Income Taxes

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

Fair Value of Financial Instruments

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

As of the last day of the third quarter of fiscal 2006, the fair value of the outstanding $542.3 million in aggregate principal amount of 3.75% Convertible Notes, due February 1, 2008, was $519.2 million, based on the quoted market price for the notes.

As of the last day of the third quarter of fiscal 2006, the fair value of the outstanding $300.0 million in aggregate principal amount of 0.25% Convertible Senior Notes, due May 1, 2013, was $250.9 million, based on the quoted market price for the notes.

Foreign Currency Translation

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

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

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

Software Development Costs

SFAS 86, “Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed,” requires the capitalization of certain software development costs incurred subsequent to the date technological feasibility is established and prior to the date the product is generally available for sale. The capitalized cost is then amortized over the estimated product life. Ciena defines technological feasibility as being attained at the time a working model is completed. To date, the period between achieving technological feasibility and the general availability of such software has been short, and software development costs qualifying for capitalization have been insignificant. Accordingly, Ciena has not capitalized any software development costs.

Segment Reporting

SFAS 131, “Disclosures about Segments of an Enterprise and Related Information,” establishes annual and interim reporting standards for operating segments of a company. It also requires entity-wide disclosures about the products and services an entity provides, the material countries in which it holds assets and reports revenue, and its major customers.

Prior to the third quarter of fiscal 2006 Ciena reported its results of operations based on four operating segments: the Transport and Switching Group (TSG), the Data Networking Group (DNG), the Broadband Access Group (BBG) and Global Network Services (GNS). In an effort to address increased market opportunities for product convergence, facilitate product functionality cross-over and improve operational efficiency, Ciena has reorganized aspects of the management of its business. Ciena has eliminated its former business units and no longer has operating segment general managers. Ciena’s development resources have also been reorganized along technology skill sets that are applicable across multiple products, rather than by specific product lines. In addition, Ciena no longer manages its business, allocates its resources or evaluates its operating performance on the basis of financial information about its former business units. As a consequence, Ciena has eliminated its historical operating segments and will discontinue reporting its results of operations on a historical segment basis. Beginning with the third quarter of fiscal 2006, Ciena will report as a single business segment.

Revenue from sales to customers outside of the United States is reflected as International in Ciena’s geographic distribution of revenue in entity wide disclosures.

Reclassification

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

(3) RESTRUCTURING COSTS

Ciena has previously taken actions to align its workforce, facilities and operating costs with business opportunities. Ciena historically has committed to a restructuring plan and has incurred the associated liability concurrently in accordance with the provisions of SFAS 146, “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, 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 located 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 located 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 located 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 AND EQUITY SECURITIES

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

	July 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate bonds	$ 377,341	$ —	$ 1,229	$ 376,112
Asset-backed obligations	144,882	—	562	144,320
U.S. government obligations	133,615	—	611	133,004
Money market funds	552,234	—	—	552,234
	$ 1,208,072	$ —	$ 2,402	$ 1,205,670
Included in cash and cash equivalents	552,234	—	—	552,234
Included in short-term investments	468,280	—	1,918	466,362
Included in long-term investments	187,558	—	484	187,074
	$ 1,208,072	$ —	$ 2,402	$ 1,205,670

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

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

	Amortized Cost	Estimated Fair Value
Less than one year	$ 468,280	$ 466,362
Due in 1-2 years	187,558	187,074
Due in 2-5 years	—	—
	$ 655,838	$ 653,436

(5) ACCOUNTS RECEIVABLE

As of July 31, 2006, trade accounts receivable, net of allowance for doubtful accounts, included two customers that accounted for 10.9%, and 21.9% of net trade accounts receivable, respectively. As of October 31, 2005, trade accounts receivable, net of allowance for doubtful accounts, included three customers that accounted for 12.1%, 13.1% and 13.8% of net trade accounts receivable, respectively.

Ciena's allowance for doubtful accounts as of October 31, 2005 and July 31, 2006 was $3.3 million and $0.2 million, respectively. During the first nine months of fiscal 2006, Ciena recorded the recovery of doubtful accounts in

the amount of $3.0 million as a result of the receipt of amounts due from customers from whom payment was previously deemed doubtful due to the customers' financial condition. In addition, during the first nine months of fiscal 2006, $0.1 million of uncollectible accounts were written off against the allowance.

(6) INVENTORIES

Inventories are comprised of the following (in thousands):

	October 31, 2005	July 31, 2006
Raw materials	$ 21,177	$ 29,389
Work-in-process	3,136	5,524
Finished goods	47,615	81,451
	71,928	116,364
Provision for excess and obsolescence	(22,595)	(20,543)
	$ 49,333	$ 95,821

Ciena writes down its inventory for estimated obsolescence or unmarketable inventory by the difference between the cost of inventory and the estimated market value based on assumptions about future demand and market conditions. During the 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 Reserve
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

During the first nine months of fiscal 2005, Ciena recorded a provision for excess inventory of $3.4 million, primarily related to excess inventory due to a change in forecasted sales for certain products. The following is a summary of the change in the reserve for excess and obsolete inventory during the first nine months of fiscal 2005 (in thousands):

	Inventory Reserve
Reserve balance as of October 31, 2004	$ 21,933
Provision for excess inventory, net	3,396
Actual inventory scrapped	(3,297)
Reserve balance as of July 31, 2005	$ 22,032

(7) PREPAID EXPENSES AND OTHER

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

	October 31, 2005	July 31, 2006
Interest receivable	$ 7,743	$ 9,146
Prepaid VAT and other taxes	4,848	8,735
Prepaid expenses	9,103	11,494
Restricted cash	10,376	9,875
Other non-trade receivables	5,797	4,381
	$ 37,867	$ 43,631

(8) EQUIPMENT, FURNITURE AND FIXTURES

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

	October 31, 2005	July 31, 2006
Equipment, furniture and fixtures	$ 249,282	$ 252,076
Leasehold improvements	32,875	35,507
	282,157	287,583
Accumulated depreciation and amortization	(254,458)	(259,693)
Construction-in-progress	391	337
	$ 28,090	$ 28,227

(9) OTHER INTANGIBLE ASSETS

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

	October 31, 2005			July 31, 2006		
	Gross Intangible	Accumulated Amortization	Net Intangible	Gross Intangible	Accumulated Amortization	Net Intangible
Developed technology	$ 139,983	$ (70,502)	$ 69,481	$ 139,983	$ (83,308)	$ 56,675
Patents and licenses	47,370	(19,219)	28,151	47,370	(23,902)	23,468
Customer relationships, covenants not to compete, outstanding purchase orders and contracts	45,981	(23,289)	22,692	45,981	(27,588)	18,393
	$ 233,334		$ 120,324	$ 233,334		$ 98,536

The aggregate amortization expense of other intangible assets was $33.2 million and $21.8 million for the first nine months of fiscal 2005 and 2006, respectively. The following table represents the expected future amortization of other intangible assets as follows (in thousands):

2006 (remaining three months)	$ 7,262
2007	29,050
2008	27,840
2009	19,254
2010	14,500
Thereafter	630
	$ 98,536

(10) OTHER BALANCE SHEET DETAILS

Other long-term assets (in thousands):

	October 31, 2005	July 31, 2006
Maintenance spares inventory, net	$ 12,513	$ 13,199
Deferred debt issuance costs	6,406	11,183
Investments in privately held companies	7,223	6,489
Restricted cash	4,393	3,547
Other	10,792	2,583
	$ 41,327	$ 37,001

Accrued liabilities (in thousands):

	October 31, 2005	July 31, 2006
Warranty	$ 27,044	$ 30,110
Accrued compensation, payroll related tax and benefits	26,164	25,503
Accrued interest payable	6,082	10,398
Other	17,201	22,194
	$ 76,491	$ 88,205

The following table summarizes the activity in Ciena's accrued warranty for the first nine months of fiscal 2005 and 2006 (in thousands):

Nine Months Ended July 31,	Beginning Balance	Provisions	Settlements	Balance at end of period
2005	$30,189	7,546	(10,520)	$27,215
2006	$27,044	10,885	(7,819)	$30,110

Deferred revenue (in thousands):

	October 31, 2005	July 31, 2006
Products	$ 14,534	$ 7,846
Services	28,984	34,755
Total deferred revenue	43,518	42,601
Less current portion	(27,817)	(22,689)
Long-term deferred revenue	$ 15,701	$ 19,912

(11) CONVERTIBLE NOTES PAYABLE

3.75% Convertible Notes, due February 1, 2008

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

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

During the first nine months of fiscal 2006, Ciena repurchased $106.5 million of the outstanding 3.75% convertible notes for $98.4 million in open market transactions. Ciena 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.

As of the last day of the third quarter of fiscal 2006, the fair value of the $542.3 million in aggregate principal amount of 3.75% convertible notes outstanding was $519.2 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. The notes bear interest at the annual rate of 0.25% from April 10, 2006, payable semi-annually on May 1 and November 1, commencing on November 1, 2006. 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, the notes may be converted prior to maturity into shares of Ciena common stock at the initial conversion rate of 177.1009 shares per $1,000 in principal amount, which is equivalent to an initial conversion price of $5.6465 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.

As of the last day of the third quarter of fiscal 2006, the fair value of the $300.0 million in aggregate principal amount of 0.25% convertible senior notes outstanding was $250.9 million, based on the quoted market price for the notes.

(12) LOSS PER SHARE CALCULATION

Basic and diluted EPS are computed using the weighted average number of common shares outstanding. Because of the anti-dilutive effect, diluted EPS and the weighted average number of common shares do not include shares underlying: stock options, warrants, restricted stock, restricted stock units, Ciena's 3.75% convertible notes and 0.25% convertible senior notes. Shares underlying these securities totaled approximately 63.6 million and 95.4 million for the third quarter of fiscal 2005 and the third quarter of fiscal 2006, respectively and approximately 65.7 million and 64.0 million for the first nine months of fiscal 2005 and the first nine months of fiscal 2006, respectively.

(13) STOCKHOLDERS' EQUITY

Concurrent with Ciena's April 10, 2006 issuance of 0.25% Convertible Senior Notes due May 1, 2013, Ciena purchased a call spread option on its common stock from an affiliate of the underwriter. The call spread option is designed to mitigate dilution from the conversion of the notes to the extent that the market price per share of Ciena common stock upon exercise is greater than the conversion price, subject to a cap.

The call spread option covers approximately 53.1 million shares of Ciena common stock, which is the number of shares issuable upon conversion of the notes in full. The call spread option effectively has a "lower strike price" of $5.6465 and a "higher strike price" of $6.50575 and is exercisable and expires on May 1, 2013, the maturity date of the notes. Ciena can exercise the call spread option on a net cash basis, a net share basis or a full physical settlement. A net cash settlement would result in Ciena receiving an amount ranging 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, if the market price per share of Ciena common stock upon exercise is at or above the higher strike price. Settlement of the call spread option on a net share basis would result in Ciena receiving a number of shares ranging from 0, if the market price per share of Ciena common stock upon exercise is equal to or below the lower strike price, up to approximately 7.0 million shares, if the market price per share of Ciena common stock upon exercise is equal to the higher strike price. The value of the consideration of a net share settlement will be equal to the value upon a net cash settlement. If the market price is between the lower strike price and the higher strike price, in lieu of a net share or net cash settlement, Ciena may elect to receive the full number of shares underlying the call spread option upon payment by Ciena of an aggregate option exercise price of $300.0 million. Should there be an early unwind of the call spread option, the amount of cash or net shares to be received by Ciena will be dependent 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 option and the lower price and higher strike prices are subject to customary adjustments. The $28.5 million cost of the call spread option was recorded as a reduction in additional paid in capital.

(14) SHARE-BASED COMPENSATION EXPENSE

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

Ciena Corporation 2000 Equity Incentive Plan

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

Under the terms of the 2000 Plan, the number of shares authorized for issuance will increase by 5.0% of the number of issued and outstanding shares of Ciena each January 1st, unless the Compensation Committee reduces the amount of the increase in any year. By action of the Compensation Committee, the plan increased by (i) zero shares on January 1, 2006, (ii) zero shares on January 1, 2005, and (iii) 9.5 million shares, or 2.0% of the then issued and outstanding shares of Ciena, on January 1, 2004. In addition, any shares subject to outstanding options or other awards under the ONI 1997 Stock Plan, ONI 1998 Equity Incentive Plan, or ONI 1999 Equity Incentive Plan that are forfeited upon cancellation of the award are available for issuance under the 2000 Plan. As of July 31, 2006, there were 39.0 million shares authorized and available for issuance under the 2000 Plan.

Stock Options

The following table is a summary of Ciena's stock option activity for the first nine months of fiscal 2006 (shares in thousands) :

	Options Outstanding	Weighted Average Exercise Price
Balance as of October 31, 2005	60,591	$ 6.40
Granted	3,602	3.04
Exercised	(7,945)	2.34
Canceled	(5,082)	5.93
Balance as of July 31, 2006	51,166	$ 6.84

The total intrinsic value of options exercised in the first nine months of fiscal 2006 was $16.6 million.

The following table summarizes information with respect to stock options outstanding at July 31, 2006, based on Ciena's closing stock price on July 28, 2006 of $3.53 per share (shares and intrinsic value in thousands):

Range of Exercise Price			Options Outstanding at July 31, 2006 Number	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value	Vested Options at July 31, 2006 Number	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value
$ 0.01	—	$ 2.36	6,919	8.42	$ 2.04	$ 10,331	2,125	7.24	$ 1.54	$ 4,229
$ 2.37	—	$ 2.49	6,629	8.74	2.45	7,133	1,919	8.33	2.43	2,105
$ 2.50	—	$ 3.29	7,770	8.01	3.07	3,597	6,547	7.92	3.11	2,764
$ 3.30	—	$ 4.48	4,264	7.64	3.93	69	3,840	7.41	3.92	63
$ 4.49	—	$ 4.53	7,355	6.41	4.53	—	7,160	6.32	4.53	—
$ 4.54	—	$ 6.71	5,192	6.69	5.84	—	4,753	6.41	5.91	—
$ 6.72	—	$ 11.88	5,494	5.68	8.61	—	5,494	5.68	8.61	—
$ 11.89	—	$ 149.50	7,543	4.49	22.30	—	7,543	4.49	22.30	—
$ 0.01	—	$ 149.50	51,166	7.00	$ 6.84	$ 21,130	39,381	6.41	$ 8.11	$ 9,161

As of July 31, 2006, total unrecognized compensation expense related to unvested stock options was $13.6 million. This expense is expected to be recognized over a weighted-average period of 1.8 years.

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

Restricted Stock Units

A restricted stock unit is a right to receive a share of Ciena common stock when the unit vests. Ciena calculates the fair value of each restricted stock unit using the intrinsic value method and recognizes the expense straight-line over the requisite period. The following table is a summary of Ciena's restricted stock unit activity for the first nine months of fiscal 2006, based on Ciena's closing stock price July 28, 2006 of $3.53 per share (shares and intrinsic value in thousands):

	Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value	Intrinsic Value at July 31, 2006
Balance as of October 31, 2005	127	$6.76	
Granted	1,782		
Converted	(150)		
Canceled or forfeited	(195)		
Balance as of July 31, 2006	1,564	$3.00	$5,520

The total intrinsic value of restricted stock units converted in the first nine months of fiscal 2006 was $0.8 million.

As of July 31, 2006, total unrecognized compensation expense related to restricted stock units was $3.3 million. This expense is expected to be recognized over a weighted-average period of 1.5 years.

2003 Employee Stock Purchase Plan

In March 2003, Ciena shareholders approved the ESPP, which has a ten year term and originally authorized the issuance of 20.0 million shares. At the 2005 annual meeting, Ciena shareholders approved an amendment increasing the number of shares available to 25.0 million and adopting an "evergreen" provision that annually increases the number of shares available by up to four million shares, provided that the total number of shares available shall not

exceed 25.0 million. Pursuant to the evergreen provision, the maximum number of shares that may be added to the ESPP during the remainder of its ten-year term is 28.0 million. On December 31, 2005, the evergreen provision automatically added an additional 2.1 million shares to the ESPP, increasing the total number of shares available to 25.0 million. On March 15, 2006, 2.3 million shares were issued under the plan for $3.9 million. As of July 31, 2006, 22.7 million shares are available to grant under this plan.

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.

	ESPP shares available for issuance	Weighted average issue date fair value	Intrinisic value at issue date
Balance as of October 31, 2005	25,000	—	—
Issued on March 15, 2006	(2,344)	$1.66	$8,659
Balance as of July 31, 2006	22,656	—	—

As of July 31, 2006, unrecognized compensation expense related to the ESPP was $0.8 million. This expense is expected to be recognized over a weighted-average period of 1.4 years.

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

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

Prior to the adoption of SFAS 123(R), Ciena accounted for share-based awards to employees and directors using the intrinsic value method in accordance with APB 25, as interpreted by FASB Interpretation (FIN) No. 44, "Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25," as allowed under SFAS 123, "Accounting for Stock-Based Compensation." Share-based compensation expense of $3.3 million for the third quarter of fiscal 2005 and $8.8 million for the first nine months of fiscal 2005 was solely related to share-based awards assumed through acquisitions and restricted stock unit awards that Ciena had been recognizing in its consolidated statement of operations in accordance with the provisions set forth above. Because the exercise price of Ciena's stock options granted to employees and directors equaled the fair market value of the underlying stock at the grant date, under the intrinsic value method, no share-based compensation expense was otherwise recognized in Ciena's consolidated statement of operations.

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

	Quarter Ended July 31,		Nine Months Ended July 31,	
	2005	2006	2005	2006
Product costs	$ —	$ 361	$ —	$ 871
Service costs	—	211	—	604
Stock-based compensation expense included in cost of sales	—	572	—	1,475
Research and development	2,195	1,061	4,048	4,119
Sales and marketing	934	715	4,257	2,709
General and administrative	153	594	505	2,422
Stock-based compensation expense included in operating expense	3,282	2,370	8,810	9,250
Stock-based compensation expense capitalized in inventory, net	—	(107)	—	228
Total stock-based compensation	$ 3,282	$ 2,835	$ 8,810	$ 10,953

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

Had (i) compensation expense for Ciena's stock option plans and employee stock purchase plan been determined based on the Black-Scholes valuation method; and (ii) the fair value at the grant date for awards in the first nine months of fiscal 2005 been determined consistent with the provisions of SFAS 123, "Accounting for Stock Based Compensation" as amended by SFAS 148, "Accounting for Stock Based Compensation-Transition and Disclosure," Ciena's net loss and net loss per share for the quarter and nine months ended July 31, 2005 would have changed by the pro forma amounts indicated below (in thousands, except per share data):

	Quarter Ended July 31, 2005	Nine Months Ended July 31, 2005
Net loss applicable to common stockholders — as reported	$ (51,027)	$ (182,829)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	7,616	31,648
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	3,282	8,810
Net loss applicable to common stockholders — pro forma	$ (55,361)	$ (205,667)
Basic and diluted net loss per share — as reported	$ (0.09)	$ (0.32)
Basic and diluted net loss per share — pro forma	$ (0.10)	$ (0.36)

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

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

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

	Quarter Ended July 31,		Nine Months Ended July 31,	
	2005	2006	2005	2006
Expected volatility	64.0%	61.5%	64.0% - 66.7%	61.5%
Risk-free interest rate	4.0%	5.0% - 5.1%	3.7% - 4.0%	4.3% - 5.1%
Expected life (years)	4.5 - 5.5	6.0 - 6.1	4.5 - 5.5	5.5 - 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 appropriate for the term of Ciena's employee stock options.

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

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

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

Assumptions for option-based awards under SFAS 123

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

Assumptions for Restricted Stock Unit Awards under SFAS 123(R)

The fair value of each restricted stock unit award is estimated on the date of grant using the intrinsic value method. The weighted average fair value of each restricted stock unit granted under Ciena's stock option plans for the quarter and nine months ended July 31, 2006 was $4.38 and $2.75 respectively. There were no restricted stock units issued in the first nine months of fiscal 2005.

Assumptions for Employee Stock Purchase Plan Awards under SFAS 123(R)

The fair value of each ESPP award is initially determined at the grant date using the graded vesting approach. Under the graded vesting approach, Ciena's ESPP, which has a 24-month offer period consisting of four, six-month purchase periods, is treated for valuation purpose as four separate option tranches, each commencing on the initial grant date. As a result, a standard offer period consists of four option tranches with individual lives of six, 12, 18 and 24 months. Each tranche is then expensed straight-line over its individual life.

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.

(15) COMPREHENSIVE LOSS

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

	Quarter Ended July 31,		Nine Months Ended July 31,	
	2005	2006	2005	2006
Net loss	$ (51,027)	$ (4,285)	$ (182,829)	$ (12,486)
Change in unrealized loss on available-for-sale securities, net of tax	196	464	(2,256)	2,271
Change in accumulated translation adjustments	(196)	27	(200)	—
Total comprehensive loss	$ (51,027)	$ (3,794)	$ (185,285)	$ (10,215)

(16) ENTITY WIDE DISCLOSURES

Revenue from sales to customers outside of the United States is reflected as International in the geographic distribution of revenue below. Ciena's geographic distribution of revenue for the quarters and nine months ended July 31, 2005 and July 31, 2006 were as follows (in thousands, except percentage data):

	Quarter Ended July 31,				Nine Months Ended July 31,			
	2005	%*	2006	%*	2005	%*	2006	%*
United States	$ 89,357	80.9	$ 116,419	76.3	$ 248,216	80.3	$ 314,468	77.8
International	21,123	19.1	36,080	23.7	60,858	19.7	89,636	22.2
Total	$ 110,480	100.0	$ 152,499	100.0	$ 309,074	100.0	$ 404,104	100.0

* Denotes % of total revenue

During the quarters and nine months ended July 31, 2005 and July 31, 2006, customers who accounted for 10% or more of Ciena's revenue during the respective periods were as follows (in thousands, except percentage data):

	Quarter Ended July 31,				Nine Months Ended July 31,			
	2005	%*	2006	%*	2005	%*	2006	%*
Company A	$ 13,780	12.5	N/A	—	$ 37,882	12.3	N/A	—
Company B	N/A	—	18,650	12.2	34,395	11.1	60,244	14.9
Company C	14,802	13.4	N/A	—	34,739	11.2	N/A	—
Company D	N/A	—	41,494	27.2	N/A	—	52,056	12.9
Company E	N/A	—	18,650	12.2	N/A	—	50,778	12.6
Total	$ 28,582	25.9	$ 78,794	51.6	$ 107,016	34.6	$ 163,078	40.4

N/A Denotes revenue representing less than 10% of total revenue for the period

* Denotes % of total revenue

(17) CONTINGENCIES

Litigation

On October 3, 2000, Stanford University and Litton Systems filed a complaint in the United States District Court for the Central District of California against Ciena and several other defendants, alleging that optical fiber amplifiers incorporated into certain of those parties' products infringe U.S. Patent No. 4,859,016 (the "'016 Patent"). The complaint seeks injunctive relief, royalties and damages. On October 10, 2003, the court stayed the case pending final resolution of matters before the U.S. Patent and Trademark Office (the "PTO"), including a request for and disposition of a reexamination of the '016 Patent. On October 16, 2003 and November 2, 2004, the PTO granted reexaminations of the '016 Patent, resulting in a continuation of the stay of the case. On July 11, 2005, the PTO issued a Notice of Intent to Issue a Reexamination Certificate and a Statement of Reasons for Patentability/Confirmation, stating its intent to confirm all claims of '016 Patent. As a result, on October 10, 2005, Litton Systems filed a motion with the district court for an order lifting the stay of the case, and defendant Pirelli S.p.A. filed with the PTO a new request for ex parte reexamination of the '016 Patent. On December 15, 2005, the PTO denied Pirelli's request for reexamination. On December 19, 2005, the district court denied Litton Systems' motion to lift the stay. On January 17, 2006, Pirelli filed a petition for reconsideration of the order denying its request for reexamination. On March 6, 2006, the PTO vacated its Notice of Intent to Issue Reexamination Certificate as premature, reassigned the case to a new examiner for further proceedings, and dismissed as moot Pirelli's petition for

reconsideration. Ciena believes that it has valid defenses to the lawsuit and intends to defend it vigorously in the event the stay of the case is lifted.

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

On June 16, 2006, Ciena and Nortel Networks, Inc. and Nortel Networks Limited (collectively, "Nortel") entered into an agreement in principle to settle both of the patent lawsuits pending in the United States District Court for the Eastern District of Texas, Marshall Division, which were originally filed on January 18, 2005 and April 17, 2006. On August 4, 2006, the parties signed a definitive settlement and long-term patent cross-license.

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 EVENT

At Ciena's annual meeting on March 15, 2006, shareholders approved a proposal to authorize the Board of Directors, in its discretion, to effect a reverse stock split at one of three approved ratios, at any time prior to the 2007 annual meeting, without further action by shareholders. On August 30, 2006, Ciena's Board approved a one-for-seven (1-for-7) reverse stock split of Ciena's common stock. The reverse stock split will become effective at 5:00 p.m., Eastern Time, on September 22, 2006. Pursuant to the reverse stock split, each seven shares of authorized and outstanding common stock will be reclassified and combined into one share of new common stock.

In connection with the reverse stock split, the number of shares of common stock authorized under Ciena's Third Restated Certificate of Incorporation will be reduced from 980 million to 140 million shares, without any change in par value per common share. The reverse split will not change the number of shares of Ciena preferred stock authorized, which will remain at 20 million.

Following the effective date of the reverse stock split, references to historical and future share and per-share data will be adjusted to give effect to the reverse stock split. Disclosure of pro forma basic and diluted net loss per common share and dilutive potential common share below gives effect to Ciena's one-for-seven reverse stock split, the effective date of which will be September 22, 2006. Actual and pro forma basic and diluted net loss per common share and dilutive potential common share are as follows (in thousands):

	Actual			
	Quarter Ended July 31,		Nine Months Ended July 31,	
	2005	2006	2005	2006
Basic and diluted net loss per common share and dilutive potential common share	$ (0.09)	$ (0.01)	$ (0.32)	$ (0.02)

	Pro Forma			
	Quarter Ended July 31,		Nine Months Ended July 31,	
	2005	2006	2005	2006
Basic and diluted net loss per common share and dilutive potential common share	$ (0.62)	$ (0.05)	$ (2.23)	$ (0.15)

Disclosure of pro forma stockholders' equity below gives effect to Ciena's one-for-seven reverse stock split, the effective date of which will be September 22, 2006. Actual and pro forma stockholders' equity is as follows (in thousands):

	October 31, 2005		July 31, 2006	
	Actual	Pro Forma	Actual	Pro Forma
Common stock	$ 5,803	$ 829	$ 5,909	$ 844
Additional paid-in capital	5,489,613	5,494,587	5,491,942	5,497,007
Deferred stock compensation	(2,286)	(2,286)	—	—
Changes in unrealized gains on investments, net	(4,673)	(4,673)	(2,402)	(2,402)
Translation adjustment	(495)	(495)	(495)	(495)
Accumulated deficit	(4,752,595)	(4,752,595)	(4,765,081)	(4,765,081)
Total stockholders' equity	$ 735,367	$ 735,367	$ 729,873	$ 729,873

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

Some of the statements contained, or incorporated by reference, in this quarterly report discuss future events or expectations, contain projections of results of operations or financial condition, changes in the markets for our products and services, or state other "forward-looking" information. Ciena's "forward-looking" information is

based on various factors and was derived using numerous assumptions. In some cases, you can identify these "forward-looking statements" by words like "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of those words and other comparable words. You should be aware that these statements only reflect our current predictions and beliefs. These statements are subject to known and unknown risks, uncertainties and other factors, and actual events or results may differ materially. Important factors that could cause our actual results to be materially different from the forward-looking statements are disclosed throughout this report, particularly under the heading "Risk Factors" in Item 1A of Part II of this report below. You should review these risk factors and the rest of this quarterly report in combination with the more detailed description of our business in our annual report on
Form 10-K, which we filed with the Securities and Exchange Commission on January 12, 2006, for a more complete understanding of the risks associated with an investment in Ciena's securities. Ciena undertakes no obligation to revise or update any forward-looking statements.

Overview

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

Our revenue increased to $152.5 million in the third quarter of fiscal 2006 and $404.1 million for the first nine months of fiscal 2006. This represents a 38.0% increase in quarterly revenue from $110.5 million in the third quarter of fiscal 2005 and a 16.3% increase from $131.2 million in the second quarter of fiscal 2006. Revenue increased sequentially from the second quarter of fiscal 2006 primarily due to increased sales of long-haul transport products. Revenue growth continues to be driven, in substantial part, by customers' making network investments to address capacity needs, increased broadband usage and network traffic from a broader mix of services. While we believe that these market conditions will enable us to continue to grow our revenues in the near term, our business remains susceptible to fluctuations in revenue from quarter to quarter due to the timing and size of equipment orders, our ability to deliver products against them, and the timing of satisfaction of acceptance criteria.

Gross margin was 47.0% in the third quarter of fiscal 2006 and 45.8% for the first nine months of fiscal 2006. Gross margin for the third quarter of fiscal 2006 increased from 34.1% in the third quarter of fiscal 2005 and decreased slightly from 48.0% for the second quarter of fiscal 2006. Gross margin during the third quarter of fiscal 2006 remained strong, primarily due to sales of higher margin channel line cards for our core transport systems and our continued efforts to reduce product costs. Our gross margin remains, however, susceptible to fluctuation from period to period as a result of mix, cost reductions, competitive pressure on pricing and other factors. Maintaining gross margin near the level achieved in the first nine months of fiscal 2006 will be important in upcoming fiscal quarters as we seek to achieve and maintain profitability.

We expect that our future business and the competitive landscape in which we operate will be affected by several continuing market developments. In recent quarters, we have witnessed a growing interest among telecommunications service providers in building more economical, next-generation core and metro transport networks to address new service offerings. As the markets in which we operate have become more attractive, however, we have encountered increased competition, particularly for long-haul and metro transport products. This competition has come from larger, incumbent competitors with broad product offerings as well as smaller, start-up companies. This competition has also come from low-cost networking equipment producers in China, which may increase pricing pressure. Merger activity among some of our competitors may also affect the competitive landscape. Moreover, recent mergers among telecommunications carriers, including some of our largest customers, have reduced the number of large carriers, increased their purchasing power and increased our revenue concentration. During the third quarter of fiscal 2006, three customers represented 51.6% of revenue, and for the first nine months of fiscal 2006, three customers represented 40.4% of revenue. We expect the overall effect of these continuing developments to be an increasingly competitive market for the sale of our products and services, which may contribute to fluctuations in our operating results.

Operating expense was $84.5 million in the third quarter of fiscal 2006 and $220.3 million for the first nine months of fiscal 2006. Quarterly operating expense increased from $70.2 million in the second quarter of fiscal 2006 and included an $11.0 million restructuring charge largely associated with our former San, Jose, California facility and

$5.7 million in contingent fees paid to outside counsel and advisors connected with the settlement of patent litigation with Nortel Networks. Operating expense also includes $2.9 million in compensation expense resulting from the reinstitution of our incentive bonus plan during the third quarter of fiscal 2006.

As the markets in which we sell our products and the technologies that support these products have evolved, our strategy has been to embrace increased market opportunities for product convergence and functionality cross-over. This convergence allows us to consolidate multiple technologies and functionalities on a single platform, ultimately creating more robust products. In an effort to address this convergence and improve operational efficiency, we have reorganized aspects of the management of our business. We have eliminated our former business units and no longer have operating segment general managers. While our sales and much of our operations have historically occurred across our product portfolio, our development resources were structured along specific product lines. In an effort to promote further product convergence throughout our portfolio and maximize efficient use of our development resources, we have reorganized development efforts along technology skill sets that are applicable across multiple products. In addition, we no longer manage our business, allocate resources or evaluate operating performance on the basis of financial information about our former business units. As a consequence, we have eliminated our Transport and Switching Group (TSG), Data Networking Group (DNG), Broadband Access Group (BBG) and Global Network Services (GNS) operating segments and will discontinue reporting our results of operations on a historical operating segment basis. Beginning with the third quarter of fiscal 2006, we will report as a single business segment. In addition, we will allocate our goodwill and assess any impairment based on a single reporting unit.

As of July 31, 2006, headcount was 1,422, up from 1,388 at April 30, 2006 and down from 1,497 at the end of fiscal 2005.

Results of Operations

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

Revenue, cost of goods sold and gross profit

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

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

	Quarter Ended July 31,					
	2005	%*	2006	%*	Increase (decrease)	%**
Revenue:						
Products	$ 97,448	88.2	$ 137,809	90.4	$ 40,361	41.4
Services	13,032	11.8	14,690	9.6	1,658	12.7
Total revenue	110,480	100.0	152,499	100.0	42,019	38.0
Costs:						
Products	62,756	56.8	70,356	46.1	7,600	12.1
Services	10,095	9.1	10,479	6.9	384	3.8
Total cost of goods sold	72,851	65.9	80,835	53.0	7,984	11.0
Gross profit	$ 37,629	34.1	$ 71,664	47.0	$ 34,035	90.4

* Denotes % of total revenue

** Denotes % change from 2005 to 2006

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

	Quarter Ended July 31,					
	2005	%*	2006	%*	Increase (decrease)	%**
Product revenue	$ 97,448	100.0	$ 137,809	100.0	$ 40,361	41.4
Product cost of goods sold	62,756	64.4	70,356	51.1	7,600	12.1
Product gross profit	$ 34,692	35.6	$ 67,453	48.9	$ 32,761	94.4

* Denotes % of product revenue

** Denotes % change from 2005 to 2006

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

	Quarter Ended July 31,					
	2005	%*	2006	%*	Increase (decrease)	%**
Service revenue	$ 13,032	100.0	$ 14,690	100.0	$ 1,658	12.7
Service cost of goods sold	10,095	77.5	10,479	71.3	384	3.8
Service gross profit	$ 2,937	22.5	$ 4,211	28.7	$ 1,274	43.4

* Denotes % of service revenue

** Denotes % change from 2005 to 2006

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

	Quarter Ended July 31,					
	2005	%*	2006	%*	Increase (decrease)	%**
United States	$ 89,357	80.9	$ 116,419	76.3	$ 27,062	30.3
International	21,123	19.1	36,080	23.7	14,957	70.8
Total	$ 110,480	100.0	$ 152,499	100.0	$ 42,019	38.0

* Denotes % of total revenue

** Denotes % change from 2005 to 2006

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

	Quarter Ended July 31,			
	2005	%*	2006	%*
Company A	$ 13,780	12.5	N/A	—
Company B	N/A	—	18,650	12.2
Company C	14,802	13.4	N/A	—
Company D	N/A	—	41,494	27.2
Company E	N/A	—	18,650	12.2
Total	$ 28,582	25.9	$ 78,794	51.6

N/A Denotes revenue representing less than 10% of total revenue for the period

* Denotes % of total revenue

Revenue

- **Product revenue** increased from the third quarter of fiscal 2005 to the third quarter of fiscal 2006, primarily

due to a $29.1 million increase in sales of our core transport products. Revenue from core transport products represented 37.8% of our product revenue in the third quarter of fiscal 2006. Revenue from our CN 4200™ FlexSelect™ Advanced Services Platform, which was introduced in the third quarter of fiscal 2005, increased by $11.4 million and represented 8.3% of our product revenue in the third quarter of fiscal 2006. Revenue from our data networking products consisting of our DN 7000™ Series Multiservice Edge Switches increased by $6.0 million and represented 9.2% of our product revenue in the third quarter of fiscal 2006. Revenue from our broadband access products was 15.0% of our product revenue in the third quarter of fiscal 2006, representing a $5.4 million decline from the third quarter of fiscal 2005. Broadband access product revenue for the third quarter of fiscal 2005 included $3.6 million relating to our CN 1000™ BLC Next-Generation Access System, for which we have discontinued further sales and development.

- **Service revenue** increased from the third quarter of fiscal 2005 to the third quarter of fiscal 2006, primarily due to increases in deployment services and maintenance and support services.

- **United States revenue** increased from the third quarter of fiscal 2005 to the third quarter of fiscal 2006, primarily due to a $26.5 million increase in sales from our core transport products and a $6.2 million increase in our data networking products, partially offset by a $5.4 million decrease in sales of our broadband access products.

- **International revenue** increased from the third quarter of fiscal 2005 to the third quarter of fiscal 2006, primarily due a $7.3 million increase in sales of our CN 4200 product, a $3.2 million increase in core switching products and a $2.6 million increase in core transport products.

Gross profit

- **Gross profit as a percentage of revenue** increased from the third quarter of fiscal 2005 to the third quarter of fiscal 2006 largely due to increased sales volume, sales of higher margin products, including higher margin channel line cards for our core transport systems, and product cost improvements resulting from our efforts to employ a global approach to sourcing components and manufacturing our products.

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

- **Gross profit on services as a percentage of services revenue** increased from the third quarter of fiscal 2005 to the third quarter of fiscal 2006, primarily due to the effect of service rate stability in connection with our deployment services and reduced service overhead and deployment costs.

Operating expenses

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

	Quarter Ended July 31,					
	2005	%*	2006	%*	Increase (decrease)	%**
Research and development	$ 34,814	31.5	$ 26,190	17.2	$ (8,624)	(24.8)
Selling and marketing	30,209	27.3	24,903	16.3	(5,306)	(17.6)
General and administrative	9,493	8.6	16,217	10.6	6,724	70.8
Amortization of intangible assets	9,653	8.7	6,295	4.1	(3,358)	(34.8)
Restructuring costs	4,355	3.9	11,008	7.2	6,653	152.8
Long-lived asset impairment	(25)	—	—	—	25	(100.0)
Provision for (recovery of) doubtful accounts, net	2,604	2.4	(139)	(0.1)	(2,743)	(105.3)
Total operating expenses	$ 91,103	82.4	$ 84,474	55.3	$ (6,629)	(7.3)

* Denotes % of total revenue

** Denotes % change from 2005 to 2006

- **Research and development expense** decreased from the third quarter of fiscal 2005 to the third quarter of fiscal 2006, primarily due to reductions of $4.0 million in employee compensation, $2.4 million in depreciation expense, and $0.8 million in prototype expense. The reduction in employee compensation was

driven by headcount reductions and reductions of $1.2 million in share-based compensation expense.

- **Selling and marketing expense** decreased from the third quarter of fiscal 2005 to the third quarter of fiscal 2006 due to reductions of $3.2 million in depreciation costs, $1.0 million in demonstration equipment costs, $0.5 million in tradeshow costs, and $0.2 million in travel. Employee compensation remained relatively flat due to an increase of $0.5 million in salaries and commissions offset by a reduction of $0.3 million in share-based compensation expense.

- **General and administrative expense** increased from the third quarter of fiscal 2005 to the third quarter of fiscal 2006 due to an increase of $5.0 million in legal expenses, primarily associated with our patent litigation with Nortel Networks, an increase of $1.4 million in employee compensation and an increase in audit fees of $0.3 million. Included in the legal expenses were $5.7 million in contingent fees paid to outside counsel and advisors connected with the settlement of patent litigation with Nortel Networks. The increase in employee compensation included an increase of $0.4 million in share-based compensation expense.

- **Amortization of intangible assets costs** decreased from the third quarter of fiscal 2005 to the third quarter of fiscal 2006 due to the write-off of intangible assets recorded in the fourth quarter of fiscal 2005.

- **Restructuring costs** incurred during the third quarter of 2006 included a $10.0 million charge associated with previously restructured unused facilities located in San Jose, CA. This charge was due to a reduction in estimated future sublease payments. In addition, Ciena recorded charges of $0.5 million related to workforce reductions and $0.4 million related to the closing of a facility located in 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 from the third quarter of fiscal 2005 to the third quarter of fiscal 2006.

	Quarter Ended July 31,					
	2005	%*	2006	%*	Increase (decrease)	%**
Interest and other income, net	$ 7,522	6.8	$14,045	9.2	$ 6,523	86.7
Interest expense	$ 7,163	6.5	$ 6,148	4.0	$(1,015)	(14.2)
Gain (loss) on equity investments	$(1,708)	(1.5)	$ 948	0.6	$ 2,656	(155.5)
Gain on extinguishment of debt	$ 3,882	3.5	$ —	—	$(3,882)	(100.0)
Provision for income taxes	$ 86	0.1	$ 320	0.2	$ 234	272.1

* Denotes % of total revenue

** Denotes % change from 2005 to 2006

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

- **Interest expense** decreased from the third quarter of 2005 to the third quarter of 2006 due to the repurchase of a portion of our outstanding 3.75% convertible notes during fiscal 2005 and the first quarter of fiscal 2006.

- **Gain on equity investments** received during the third quarter of fiscal 2006 was related to a final payment from the sale of a privately held technology company in which Ciena held a minority equity investment.

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

Nine months ended July 31, 2005 compared to nine months ended July 31, 2006

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 from the first nine months of fiscal 2005 to the first nine months of fiscal 2006.

	Nine Months Ended July 31,				Increase (decrease)	%**
	2005	%*	2006	%*		
Revenue:						
Products	$ 271,366	87.8	$ 360,958	89.3	$ 89,592	33.0
Services	37,708	12.2	43,146	10.7	5,438	14.4
Total revenue	$ 309,074	100.0	$ 404,104	100.0	95,030	30.7
Costs:						
Products	189,447	61.3	189,712	46.9	265	0.1
Services	30,601	9.9	29,367	7.3	(1,234)	(4.0)
Total cost of goods sold	220,048	71.2	219,079	54.2	(969)	(0.4)
Gross profit	$ 89,026	28.8	$ 185,025	45.8	$ 95,999	107.8

* Denotes % of total revenue

** Denotes % change from 2005 to 2006

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

	Nine Months Ended July 31,				Increase (decrease)	%**
	2005	%*	2006	%*		
Product revenue	$ 271,366	100.0	$ 360,958	100.0	$ 89,592	33.0
Product cost of goods sold	189,447	69.8	189,712	52.6	265	0.1
Product gross profit	$ 81,919	30.2	$ 171,246	47.4	$ 89,327	109.0

* Denotes % of product revenue

** Denotes % change from 2005 to 2006

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

	Nine Months Ended July 31,				Increase (decrease)	%**
	2005	%*	2006	%*		
Service revenue	$ 37,708	100.0	$ 43,146	100.0	$ 5,438	14.4
Service cost of goods sold	30,601	81.2	29,367	68.1	(1,234)	(4.0)
Service gross profit	$ 7,107	18.8	$ 13,779	31.9	$ 6,672	93.9

* Denotes % of service revenue

** Denotes % change from 2005 to 2006

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

	Nine Months Ended July 31,					
	2005	%*	2006	%*	Increase (decrease)	%**
United States	$ 248,216	80.3	$ 314,468	77.8	$ 66,252	26.7
International	60,858	19.7	89,636	22.2	28,778	47.3
Total	$ 309,074	100.0	$ 404,104	100.0	$ 95,030	30.7

* Denotes % of total revenue

** Denotes % change from 2005 to 2006

During the first nine months of fiscal 2005 and the first nine months of fiscal 2006, certain customers accounted for 10% or more of our revenues during the respective periods as follows (in thousands, except percentage data):

	Nine Months Ended July 31,			
	2005	%*	2006	%*
Company A	$ 37,882	12.3	N/A	—
Company B	34,395	11.1	60,244	14.9
Company C	34,739	11.2	N/A	—
Company D	N/A	—	52,056	12.9
Company E	N/A	—	50,778	12.6
Total	$ 107,016	34.6	$ 163,078	40.4

N/A Denotes revenue representing less than 10% of total revenue for the period

* Denotes % of total revenue

Revenue

- **Product revenue** increased from the first nine months of fiscal 2005 to the first nine months of fiscal 2006, primarily due to a $25.6 million increase in sales from our CN 4200 product introduced in the third quarter of fiscal 2005, a $24.3 million increase in sales from our CoreDirector® family of intelligent optical core switches, a $20.7 million increase in sales from our core transport products and a $10.1 million increase in sales of our CNX-5™ Broadband DSL System.

- **Service revenue** increased from the first nine months of fiscal 2005 to the first nine months of fiscal 2006, primarily due to increased sales of deployment services, maintenance and support services and product training services.

- **United States revenue** increased from the first nine months of fiscal 2005 to the first nine months of fiscal 2006, primarily due to a $21.8 million increase in sales from our CoreDirector® family of intelligent optical core switches, a $19.1 million increase in sales from our core transport products, a $10.3 million increase from sales of our CNX-5™ Broadband DSL System and a $10.0 million increase from sales our CN 4200 product.

- **International revenue** increased from the first nine months of fiscal 2005 to the first nine months of fiscal 2006, primarily due to a $15.7 million increase in sales from our CN 4200 product and a $10.7 million increase in sales from our Ethernet multiservice access products.

Gross profit

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

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

- **Gross profit on services as a percentage of services revenue** increased from the first nine months of fiscal

2005 to the first nine months of fiscal 2006, primarily due to service rate stability in connection with our deployment services and reduced service overhead and deployment costs.

Operating expenses

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

	Nine Months Ended July 31,					
	2005	%*	2006	%*	Increase (decrease)	%**
Research and development	$ 105,084	34.0	$ 84,508	20.9	$ (20,576)	(19.6)
Selling and marketing	86,697	28.1	78,132	19.3	(8,565)	(9.9)
General and administrative	26,043	8.4	37,359	9.2	11,316	43.5
Amortization of intangible assets	30,268	9.8	18,885	4.7	(11,383)	(37.6)
Restructuring costs	15,245	4.9	16,037	4.0	792	5.2
Long-lived asset impairment	134	—	(6)	—	(140)	(104.5)
Provision for (recovery of) doubtful accounts, net	2,604	0.8	(2,990)	(0.7)	(5,594)	(214.8)
Gain on lease settlement	—	—	(11,648)	(2.9)	(11,648)	N/A
Total operating expenses	$ 266,075	86.0	$ 220,277	54.5	$ (45,798)	(17.2)

* Denotes % of total revenue

** Denotes % change from 2005 to 2006

- **Research and development expense** decreased from the first nine months of fiscal 2005 to the first nine months of fiscal 2006, primarily due to reductions of $11.8 million in employee compensation, $5.4 million in depreciation expense, and $1.8 million in prototype expense. The reduction in employee compensation was driven by headcount reductions.

- **Selling and marketing expense** decreased from the first nine months of fiscal 2005 to the first nine months of fiscal 2006 due to reductions of $5.9 million in depreciation costs, $1.4 million in temporary import costs, $1.4 million in facility and information systems expense and $0.8 million in travel. These reductions were slightly offset by increases of $0.9 million in employee compensation. Salaries, bonuses and commissions increased by $2.5 million during the first nine months of fiscal 2006, offset by a reduction of $1.7 million in share-based compensation expense.

- **General and administrative expense** increased from the first nine months of fiscal 2005 to the first nine months of fiscal 2006 due to an increase of $6.8 million in legal expense, primarily related to our patent litigation with Nortel Networks, $3.8 million in employee compensation and $1.2 million in audit fees partially offset by a decrease of $0.4 million in directors and officers insurance expense. Included in the legal expenses were $5.7 million in contingent fees paid to outside counsel and advisors connected with the settlement of the Nortel litigation. The increase in employee compensation included an increase of $1.8 million in share-based compensation expense.

- **Amortization of intangible assets costs** decreased from the first nine months of fiscal 2005 to the first nine months of fiscal 2006 due to the write-off of intangible assets recorded in the fourth quarter of fiscal 2005.

- **Restructuring costs** incurred during the first nine months of fiscal 2006 were primarily related to a $10.0 million charge associated with previously restructured unused facilities located in San Jose, CA, and $6.3 million in charges related to workforce reductions of approximately 155 employees and costs associated with the closure of facilities located in Kanata, Ontario; Shrewsbury, NJ and Beijing, China.

- **Provision for (recovery of) doubtful accounts, net** for the first nine months 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.

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

Other items

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

	Nine Months Ended July 31,					
	2005	%*	2006	%*	Increase (decrease)	%**
Interest and other income, net	$ 22,058	7.1	$ 34,504	8.5	$ 12,446	56.4
Interest expense	$ 21,619	7.0	$ 18,016	4.5	$ (3,603)	(16.7)
Gain (loss) on equity investments	$ (8,986)	(2.9)	$ 215	0.1	$ 9,201	(102.4)
Gain on extinguishment of debt	$ 3,882	1.3	$ 7,052	1.7	$ 3,170	81.7
Provision for income taxes	$ 1,115	0.4	$ 989	0.2	$ (126)	(11.3)

* Denotes % of total revenue

** Denotes % change from 2005 to 2006

- **Interest and other income, net** increased from the first nine months of fiscal 2005 to the first nine months of fiscal 2006 due to higher interest rates.
- **Interest expense** decreased from the first nine months of fiscal 2005 to the first nine months of fiscal 2006 due to the repurchase of a portion of our outstanding 3.75% convertible notes during fiscal 2005 and fiscal 2006.
- **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** for the first nine months of fiscal 2005 and the first nine months of fiscal 2006 was primarily attributable to foreign tax related to Ciena's foreign operations. We did not record a tax benefit for domestic losses during either period. We will continue to maintain a valuation allowance against certain deferred tax assets until sufficient evidence exists to support its reversal.

Liquidity and Capital Resources

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

	October 31, 2005	July 31, 2006	Increase (decrease)
Cash and cash equivalents	$ 358,012	$ 552,234	$ 194,222
Short-term investments	579,531	466,362	(113,169)
Long-term investments	155,944	187,074	31,130
Total cash, cash equivalents, short-term and long-term investment	$ 1,093,487	$ 1,205,670	$ 112,183

The increase in total cash, cash equivalents and short-term and long-term investments during the first nine months of fiscal 2006 was primarily related to our issuance on April 10, 2006 of 0.25% Convertible Senior Notes due May 1, 2013, resulting in proceeds of $263.6 million, net of offering expenses, underwriting discounts and the $28.5 million cost of a call spread option purchased by Ciena. This increase was offset by $98.4 million of cash used to repurchase a portion of our outstanding 3.75% convertible notes. Cash, cash equivalents and short-term and long-term investments at July 31, 2006 also reflect $64.4 million of cash consumed in operating activities during the first nine months of fiscal 2006. Based on past performance and current expectations, we believe that our cash and cash equivalents, short-term investments, and cash generated from operations will satisfy our working capital needs, capital expenditures and other liquidity requirements associated with our existing operations through at least the next 12 months.

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

Operating Activities

The following tables set forth (in thousands) significant components of our $64.4 million of cash used in

operating activities for the first nine months of fiscal 2006.

Net loss

	Nine Months Ended July 31, 2006
Net loss	$ (12,486)

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

Gain on early extinguishment of debt	$ (7,052)
Amortization of intangibles	21,788
Share-based compensation costs	10,953
Depreciation and amortization of leasehold improvements	13,173
Provision for warranty	10,885
Total significant non-cash charges	$ 49,747

Accounts Receivable, Net

Cash consumed by accounts receivable, net decreased from the first nine months of fiscal 2005 to the first nine months of fiscal 2006, due to reduced days sales outstanding ("DSO"). Ciena's DSO's for nine months ending July 31, 2005 and July 31, 2006 were 62 days and 60 days, respectively. The decrease in DSOs was primarily due to our recognition, during the first nine months of fiscal 2006, of deferred revenue for which we had previously received payment. We expect that our accounts receivable, net and DSOs may fluctuate from quarter to quarter, but generally will increase during the fourth quarter of fiscal 2006 and the first quarter of fiscal 2007, due to the size and timing of orders, the timing of satisfaction of contractual acceptance criteria, and extended payment terms particularly related to our international customers.

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

	October 31, 2005	July 31, 2006	Increase (decrease)
Accounts receivable, net	$ 72,786	$ 89,638	$ 16,852

Inventory, Net

Cash consumed by inventory, net increased from the first nine months of fiscal 2005 to the first nine months of fiscal 2006, due to a combination of inventory purchased based on customer forecasts in advance of orders, finished goods inventory located at customer facilities awaiting contractual acceptance and contract manufacturer transitions to consolidate our supply chain and reduce product costs. As a result, Ciena's inventory turns declined from 4.9 turns per year for the period ending July 31, 2005 to 2.6 turns per year for the period ending July 31, 2006. Our cash consumed by inventory has increased in recent quarters. We expect cash consumed by inventory will increase further in the fourth quarter of fiscal 2006.

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

	October 31, 2005	July 31, 2006	Increase (decrease)
Raw materials	$ 21,177	$ 29,389	$ 8,212
Work-in-process	3,136	5,524	2,388
Finished goods	47,615	81,451	33,836
Gross inventory	71,928	116,364	44,436
Reserve for excess and obsolescence	(22,595)	(20,543)	2,052
Net inventory	$ 49,333	$ 95,821	$ 46,488

Restructuring and unfavorable lease commitments

During the first nine months of fiscal 2006, we paid $23.6 million in connection with a termination of our obligations under leases for our former Fremont, CA and Cupertino, CA facilities. We paid an additional $8.3 million on leases related to restructured facilities and $7.1 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 2005 through the third quarter of fiscal 2006.

	October 31, 2005	July 31, 2006	Increase (decrease)
Restructuring liabilities	$ 15,492	$ 9,413	$ (6,079)
Unfavorable lease commitments	9,011	8,008	(1,003)
Long-term restructuring liabilities	54,285	28,218	(26,067)
Long-term unfavorable lease commitments	41,364	34,880	(6,484)
Total restructuring liabilites and unfavorable lease commitments	$ 120,152	$ 80,519	$ (39,633)

Interest Payable on Ciena's Convertible Notes

Interest on Ciena's outstanding 3.75% convertible notes, due February 1, 2008, is payable on February 1st and August 1st of each year. During the first nine months of fiscal 2006, Ciena paid $11.5 million in interest on the 3.75% convertible notes.

Interest on Ciena's outstanding 0.25% convertible senior notes, due May 1, 2013, is payable on May 1st and November 1st of each year, commencing on November 1, 2006.

The following table reflects (in thousands) the balance of interest payable and the change in this balance from the fourth quarter of fiscal 2005 through the third quarter of fiscal 2006.

	October 31, 2005	July 31, 2006	Increase (decrease)
Accrued interest payable	$ 6,082	$ 10,398	$ 4,316

Financing Activities

Cash provided by financing activities during the first nine months of fiscal 2006 was primarily related to a public offering of 0.25% Convertible Senior Notes, due May 1, 2013, in aggregate principal amount of $300.0 million that was completed during the second quarter of fiscal 2006. Associated with the offering, we purchased a call spread option on our common stock for $28.5 million and paid debt issuance costs of $7.9 million. During the first nine months of fiscal 2006, we also repurchased $106.5 million of our outstanding 3.75% convertible notes, due February 1, 2008, in open market transactions for $98.4 million. We also received $22.2 million from the exercise of employee stock options and employee participation in Ciena's employee stock purchase plan.

Contractual Obligations

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

	Total	Less than one year	One to three years	Three to five years	Thereafter
Convertible notes (1)	$ 888,225	$ 31,296	$ 553,929	$ 1,500	$ 301,500
Operating leases	133,339	27,088	47,252	39,094	19,905
Purchase obligations (2)	112,841	112,841	—	—	—
Total.	$ 1,134,405	$ 171,225	$ 601,181	$ 40,594	$ 321,405

(1) Our outstanding 3.75% convertible notes, due February 1, 2008, have an aggregate principal amount of $542.3 million. Interest is payable on February 1st and August 1st of each year. Our outstanding 0.25% convertible senior notes, due May 1, 2013, have an aggregate principal amount of $300.0 million. Interest on these notes is payable on November 1st and May 1st of each year, beginning on November 1, 2006.

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

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

	Total	Less than one year	One to three years	Three to five years	Thereafter
Standby letters of credit	$ 11,542	$ 11,442	$ 100	$ —	$ —

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

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

Revenue Recognition

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

of revenue recognition. Our total deferred revenue for products was $14.5 million and $7.8 million as of October 31, 2005 and July 31, 2006, respectively. Our service revenue is deferred and recognized ratably over the period during which the services are to be performed. Our total deferred revenue for services was $29.0 million and $34.8 million as of October 31, 2005 and July 31, 2006, respectively.

Share-Based Compensation

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

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

Reserve for Inventory Obsolescence

Ciena writes down inventory that has become obsolete or unmarketable by an amount equal to the difference between the cost of inventory and the estimated market value based on assumptions about future demand and market conditions. During the first nine months of fiscal 2006, we recorded a charge of $6.2 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 our manufacturing operations from the build-to-order model we have used in recent years, to a build-to-forecast model for some of our product lines, including core transport and switching and metro transport. This change in our inventory purchases exposes us to the risk that our customers will not order those products for which we have forecasted sales, or will purchase less than we have forecasted. If actual market conditions differ from those we have assumed, we may be required to take additional inventory write-downs or benefits.

Restructuring

As part of its restructuring costs, Ciena provides for the estimated cost of the net lease expense for facilities that are no longer being used. The provision is equal to the fair value of the minimum future lease payments under our contracted lease obligations, offset by the fair value of the estimated sublease payments that we may receive. As of July 31, 2006, Ciena’s accrued restructuring liability related to net lease expense and other related charges was $37.4 million. The total minimum lease payments for these restructured facilities are $48.2 million. These lease payments will be made over the remaining lives of our leases, which range from one month to thirteen years. If actual market conditions are different than those we have projected, we are required to recognize additional restructuring costs or benefits associated with these facilities. During the first nine months of fiscal 2006, we have recognized net adjustments resulting in restructuring costs of $9.7 million, which includes a $10.0 million adjustment during the third quarter of fiscal 2006 relating to our unused San Jose, CA facilities.

Accounts Receivable Trade, Net

Ciena's allowance for doubtful accounts is based on our assessment, on a specific identification basis, of the collectibility of customer accounts. Ciena performs ongoing credit evaluations of its customers and generally has not required collateral or other forms of security from its customers. In determining the appropriate balance for Ciena's allowance for doubtful accounts, management considers each individual customer account receivable in order to determine collectibility. In doing so, management considers creditworthiness, payment history, account activity and communication with such customer. If a customer's financial condition changes, Ciena may be required to take a charge for an allowance for doubtful accounts. During the first nine months of fiscal 2006, Ciena recorded the recovery of a doubtful account in the amount of $3.0 million as a result of the receipt of amounts due from customers from whom payment was previously deemed doubtful due to the customers' financial condition.

Goodwill

At July 31, 2006, 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, and between annual tests if an event occurs or circumstances change that would, more likely than not, reduce the fair value of the reporting unit below its carrying value. If actual market conditions differ or forecasts change at the time of our annual assessment in fiscal 2006 or in periods prior to our annual assessment, we may be required to record additional goodwill impairment charges.

As described in the "Overview" above, we have eliminated our former operating segments and have discontinued reporting our results of operations on a segment basis. In accordance with SFAS 142, goodwill is allocated and assessed at a reporting unit level. SFAS 142 delineates a reporting unit as an operating segment or one level below an operating segment (referred to as a component). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and segment management reviews the operating results of that component. Our former operating segments had no component operations below the operating segment level. Our operating segments were considered the reporting units for purposes of goodwill allocation and assessment. As of the third quarter of fiscal 2006, we no longer manage our business, allocate resources or evaluate operating performance on the basis of discrete financial information about our former operating segments and consequently our goodwill allocations and assessments are made on a single reporting unit basis.

Intangible Assets

As of July 31, 2006, Ciena's consolidated balance sheet included $98.5 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, 2006, Ciena's minority investments in privately held technology companies were $6.5 million. These investments are generally carried at cost because Ciena owns less than 20% of the voting equity and does not have the ability to exercise significant influence over any of these companies. These investments are inherently high risk as the market for technologies or products manufactured by these companies are usually early stage at the time of the investment by Ciena and such markets may never materialize or become significant. Ciena could lose its entire investment in some or all of these companies. Ciena monitors these investments for impairment and makes appropriate reductions in carrying values when necessary. 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, 2006, 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Sensitivity. Ciena maintains a short-term and long-term investment portfolio. These available-for-sale securities are subject to interest rate risk and will fall in value if market interest rates increase. If market interest rates were to increase immediately and uniformly by 10% from levels at July 31, 2006, the fair value of the portfolio would decline by approximately $50.3 million.

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

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

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

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

On October 3, 2000, Stanford University and Litton Systems filed a complaint in the United States District Court for the Central District of California against Ciena and several other defendants, alleging that optical fiber amplifiers incorporated into certain of those parties' products infringe U.S. Patent No. 4,859,016 (the "'016 Patent"). The complaint seeks injunctive relief, royalties and damages. On October 10, 2003, the court stayed the case pending final resolution of matters before the U.S. Patent and Trademark Office (the "PTO"), including a request for and disposition of a reexamination of the '016 Patent. On October 16, 2003 and November 2, 2004, the PTO granted reexaminations of the '016 Patent, resulting in a continuation of the stay of the case. On July 11, 2005, the PTO issued a Notice of Intent to Issue a Reexamination Certificate and a Statement of Reasons for Patentability/Confirmation, stating its intent to confirm all claims of '016 Patent. As a result, on October 10, 2005, Litton Systems filed a motion with the district court for an order lifting the stay of the case, and defendant Pirelli S.p.A. filed with the PTO a new request for ex parte reexamination of the '016 Patent. On December 15, 2005, the PTO denied Pirelli's request for reexamination. On December 19, 2005, the district court denied Litton Systems' motion to lift the stay. On January 17, 2006, Pirelli filed a petition for reconsideration of the order denying its request for reexamination. On March 6, 2006, the PTO vacated its Notice of Intent to Issue Reexamination Certificate as premature, reassigned the case to a new examiner for further proceedings, and dismissed as moot Pirelli's petition for reconsideration. We believe that we have valid defenses to the lawsuit and intend to defend it vigorously in the event

the stay of the case is lifted.

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

On June 16, 2006, Ciena and Nortel Networks, Inc. and Nortel Networks Limited (collectively, "Nortel") entered into an agreement in principle to settle both of the patent lawsuits pending in the United States District Court for the Eastern District of Texas, Marshall Division, which were originally filed on January 18, 2005 and April 17, 2006. On August 4, 2006, the parties signed a definitive settlement and long-term patent cross-license.

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

Item 1A. Risk Factors

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

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

The markets in which we compete for sales of networking equipment, software and services are extremely competitive, particularly the market for sales to telecommunications service providers. Competition in these markets is based on any one or a combination of the following factors: price, functionality, manufacturing capability, installation, services, existing business and customer relationships, scalability and the ability of products and services to meet the immediate and future network requirements of customers. A small number of very large companies have historically dominated the communications networking equipment industry. Many of our competitors have substantially greater financial, technical and marketing resources, greater manufacturing capacity and better established relationships with telecommunications carriers and other potential customers than us. Recent consolidation activity among large networking equipment providers has the effect of causing our competitors to grow even larger and more powerful, magnifying their strategic advantages. On April 2, 2006, Alcatel and Lucent announced a definitive agreement to merge, and on June 19, 2006, Nokia and Siemens agreed to combine their communications service provider businesses to create a new joint venture. These mergers, should they occur, may adversely affect our competitive position. We also compete with low-cost producers in China that can influence pricing pressure and a number of smaller companies that provide significant competition for a specific product, 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:

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

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

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

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

Several large communications service providers have recently completed merger transactions. These include the

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

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

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

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

- the level of demand for our products and the timing and size of customer orders, particularly from telecommunications service provider customers;
- satisfaction of contractual customer acceptance criteria and related revenue recognition requirements;
- delays, changes to or cancellation of orders from customers;
- 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;
- changes in accounting rules; and
- changes in general economic conditions as well as those specific to our market segments.

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

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

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

- increased price competition, including competition from low-cost producers in China;
- the mix in any period of higher and lower margin products and services;
- sales volume during the period;
- charges for excess or obsolete inventory;
- changes in the price or availability of components for our products;
- our ability to continue to reduce product manufacturing costs;

- introduction of new products, with initial sales at relatively small volumes with resulting higher production costs; and
- increased warranty or repair costs.

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

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

The development and production of new products, and enhancements to existing products, are complicated and often involve problems with software, components and manufacturing methods. We have introduced new or upgraded products in recent quarters and product performance problems are often more acute for initial deployments of new products and product enhancements. Modifying our products to enable customers to integrate them into a new type of network architecture entails similar risks. If significant reliability, quality, or network monitoring problems develop as a result of our product development, manufacturing or integration, a number of negative effects on our business could result, including:

- increased costs associated with fixing software or hardware defects, including service and warranty expenses;
- payment of liquidated damages for performance failures;
- high inventory obsolescence expense;
- delays in collecting accounts receivable;
- reduced orders from existing or potential customers; and
- damage to our reputation.

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

The steps that we have taken to restructure our operations and align our resources with market opportunities could disrupt our business and affect our results of operations.

We have taken several 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 continue to make changes to our operations and allocation of resources in order to improve efficiency and reduce operating expense. These efforts could be disruptive to our business. In recent fiscal quarters, these actions have focused on consolidating and restructuring our research and development resources in order to transition away from product-based or location-specific development and leverage our engineering resources across a wider range of product and solutions sets. Reductions to headcount and other cost cutting measures may result in the loss of technical expertise that could adversely affect our research and development efforts and ability to meet product development schedules. In addition, we have established a development operation in India and expect to increase hiring of personnel for this facility. Modification of research and development strategies, changes in allocation of resources and decisions to discontinue or cease to enhance products, could be disruptive to our relationships with customers and could limit new business opportunities for affected products.

Our efforts to reduce expense or improve efficiency have resulted in the recording of accounting charges in prior periods. 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, our earnings per share or net loss per share would be adversely affected in such period. If we cannot manage our cost reduction and restructuring efforts effectively, our business, results of operations and financial condition could be harmed.

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

In recent years, we have placed the majority of our orders to manufacture components or complete assemblies for many of our products only when we have firm orders from our customers. Because this practice can result in delays in the delivery of products to customers, we are increasingly ordering equipment and components from our suppliers and contract manufacturers based on forecasts of customer demand across all of our products. We believe this change is necessary in response to increased customer insistence upon shortened delivery terms. This change in our inventory purchases exposes us to the risk that our customers will not order those products for which we have forecasted sales, or will purchase fewer than the number of products we have forecasted. Our purchase agreements generally do not require that customers guarantee any purchase levels and we may purchase inventory based on forecasted sales and in anticipation of purchases that never come to fruition. As a result, we may be required to write off inventory. We may also be required to write off inventory as a result of the effect of environmental regulations such as the Restriction of the Use of Certain Hazardous Substances (RoHS), which was adopted by the European Union and became effective on July 1, 2006. As a result of previous component purchases that we based on forecasted sales, we currently hold inventory that includes non-compliant components. If we are unable to locate alternate demand for these non-compliant components outside of the European Union, we may be required to write off or write down this inventory. If we are required to write off, or write down inventory, it may result in an accounting charge that could materially affect our results of operations for the quarter in which such charge occurs.

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

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

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

As we have expanded our product portfolio, increased our use of contract manufacturers and increased our product sales in recent years, manufacturing capacity and supply constraints related to components and subsystems have become increasingly significant issues for us. We have encountered and continue to experience component shortages that have affected our operations and ability to deliver products timely to customers. Growth in customer demand for the communications networking products supplied by us, our competitors and other third parties, has resulted in supply constraints among providers of some components used in our products. In addition, environmental regulations, such as the Restriction of the Use of Certain Hazardous Substances (RoHS) adopted by the European Union, have resulted in increased demand for compliant components from suppliers. As a result, we may experience delays or 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 persist or worsen, the price of required components may increase, or the components may not be available at all. If we are unable to secure the components or subsystems that we require at reasonable prices, or are unable to secure manufacturing capacity adequate to meet our needs, we may 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 must continue to make substantial and prudent investments in product development in order to keep pace with technological advances and succeed in existing and new markets for our products.

In order to be successful, we must balance our initiatives to reduce our operating costs against the need to keep pace with technological advances. The market for communications networking equipment, software and services is

characterized by rapid technological change, frequent introductions of new products, and recurring changes in customer requirements. To succeed, we must continue to develop new products and new features for existing products that meet customer requirements and market demand. In addition, we must be able to identify and gain access, including any applicable third party licenses, to new technologies as our market segments evolve. Because our market segments are constantly evolving, our research and development strategy and allocation of development resources must be dynamic. We may decide that changes in demand, technology or other market conditions no longer warrant continued investment in a product or technology. These decisions are difficult and may be disruptive to our business and our relationships with customers. We may fail to develop products that incorporate new technologies highly sought after by customers. We may also allocate development resources toward products or technologies for which market demand is ultimately lower than anticipated. Managing our efforts to keep pace with new technologies and reduce operating expense is difficult and there is no assurance that we will be successful.

We may 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 communications service providers, enterprises, cable operators, and federal, state and local governments. To succeed in these markets, we believe we must develop and manage new sales channels and distribution arrangements. We expect these relationships to be an increasingly important part of the growth of our business and our efforts to increase revenues. 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 revenues.

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

As of July 31, 2006, we had $232.0 million of goodwill on our balance sheet. This amount primarily represents the remaining excess of the total purchase price of our acquisitions over the fair value of the net assets acquired. At July 31, 2006, we had $98.5 million of other intangible assets on our balance sheet. The amount primarily reflects purchased technology from our acquisitions. At July 31, 2006, goodwill and other intangible assets represented approximately 18.1% of our total assets. During the fourth quarter of 2005, we incurred a goodwill impairment charge of approximately $176.6 million and an impairment of other intangibles of $45.7 million. If we are required to record additional impairment charges related to goodwill and other intangible assets, such charges would have the effect of decreasing our earnings or increasing our losses in such period. If we are required to take a substantial impairment charge, our earnings per share or net loss per share could be materially adversely affected in such period.

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

Because our products are based on complex technology, we can experience unanticipated delays in developing, improving, manufacturing or deploying them. Each step in the development life cycle of our products presents serious risks of failure, rework or delay, any one of which could decrease the timing and cost effective development of such product and could affect customer acceptance of the product. Unexpected intellectual property disputes, failure of critical design elements, and a host of other execution risks may delay or even prevent the introduction of these products. Our development efforts may also be affected, particularly in the near term, by our decision to restructure development functions around technology sets rather than product lines, and to offshore certain development work to our new operations in India. 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 to ensure that our product requirements are met timely and effectively.

We rely on contract manufacturers to perform the majority of the manufacturing operations for our products and components, and are increasingly utilizing overseas suppliers, particularly in Asia. Because contract manufacturers are subject to many of the same risks as equipment vendors serving the communications industry, many contract

manufacturers have experienced their own financial difficulties in recent years. The qualification of our contract manufacturers is a costly and time-consuming process, and these manufacturers build product for other companies, including our competitors. We are constantly reviewing our manufacturing capability, including the work of our 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. It is possible that we may not effectively manage this transition or the new contract manufacturer may not perform as well as expected. As a result, we may not be able to fill orders in a timely manner, which could harm our business. In addition, we do not have contracts in place with some of these providers. Our inability to effectively manage our relationships with our contract manufacturers, particularly overseas, could negatively affect our business and results of operations.

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

We depend on a limited number of suppliers for our product components and subsystems, as well as for equipment used to manufacture and test our products. Our products include several components for which reliable, high-volume suppliers are particularly limited. Some key optical and electronic components we use in our products are currently available only from sole or limited sources, and in some cases, that source also is a competitor. 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 quality, availability or timely delivery of components. The loss of a source of key components could require us to re-engineer 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 expect to increasingly rely upon third party service delivery partners for the installation of our equipment in larger network builds, which often include more onerous installation, testing and acceptance terms. In order to ensure that we timely install our products and satisfy obligations to our customers, we must identify, train and certify additional appropriate partners. The certification of these partners can be costly and time-consuming, and these partners service products for other companies, including our competitors. We may not be able to effectively manage our relationships with our partners and we cannot be certain that they will be able to deliver our services in the manner or time required. If our service partners are unsuccessful in delivering services:

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

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

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

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

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

We have established a development operation in India and expect to increase hiring of personnel for this facility during the remainder of fiscal 2006 and into fiscal 2007. We have limited experience in offshoring our business functions, particularly development operations, and there is no assurance that our plan will enable us to achieve meaningful cost reductions or greater resource efficiency. Further, offshoring to India involves significant risks, including:

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

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

substantial unanticipated costs or expose us to unforeseen liabilities.

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

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

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

If we are unable to retain and motivate our existing employees and attract qualified personnel to fill key positions, we may be unable to manage our business effectively. If we lose members of our management team or other key personnel, it may be difficult to replace them. Competition to attract and retain highly skilled technical and other personnel with experience in our industry can be intense and our employees have been the subject of targeted hiring by our competitors. 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. In addition, we have informed employees that we will not be issuing stock options at the same level as historical grants. In addition to these compensation issues, we must continue to motivate and retain employees, which may be difficult due to morale challenges posed by our workforce reductions in prior periods and efforts to offshore certain development operations.

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.

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

Our business strategy includes acquiring or making strategic investments in other companies to add complementary products and services, expand the markets we address, diversify our customer base and 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;
- the potential loss of key employees of the acquired company;
- subsequent amortization expenses related to intangible assets and charges associated with impairment of goodwill;

- ineffective internal controls over financial reporting for purposes of Section 404 of the Sarbanes-Oxley Act;
- dependence on unfamiliar supply partners; and
- exposure to unanticipated liabilities, including intellectual property infringement claims.

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

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

Historically, our primary exposure to currency exchange rates has been related to non-U.S. dollar denominated operating expenses in Europe, Asia and Canada where we sell primarily in U.S. dollars. As we increase our international sales and utilization of international suppliers, we 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 on Form 10-K, a report containing management's assessment of the effectiveness of our internal controls over financial reporting as of the end of our fiscal year and a statement as to whether or not such internal controls are effective. Such report must also contain a statement that our independent registered public accounting firm has issued an attestation report on management's assessment of such internal controls.

We initially became subject to these requirements for our fiscal year ended October 31, 2005. Compliance with these requirements has resulted in, and is likely to continue to result in, significant costs, the commitment of time and operational resources and the diversion of management's attention. Growth of our business, including our broader product portfolio and increased transaction volume, will necessitate ongoing changes to our internal control systems, processes and infrastructure, including our information systems. Our increasingly global operations, including our development facility in India and offices abroad, will pose additional challenges to our internal control systems as their operations become more significant. We cannot be certain that our current design for internal control over financial reporting, and any modifications necessary to reflect changes in our business, will be sufficient to enable management or our independent registered public accounting firm to determine that our internal controls are effective as of the end of fiscal 2006 or on an ongoing basis. If we are unable to assert that our internal controls over financial reporting are effective (or if our independent registered public accounting firm is unable to attest that our management's report is fairly stated or they are unable to express an opinion on our management's assessment of the effectiveness of internal controls over financial reporting), our business may be harmed. Market perception of our financial condition and the trading price of our stock may be adversely affected and customer perception of our business may suffer.

Our business is dependent upon the proper functioning of our information systems and upgrading these systems may result in disruption to our 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 expect to implement a new version of our Oracle management information system during fiscal 2007. As a result of these changes, we anticipate that we will have to modify a number of our operational processes and internal control procedures to conform to the work-flows of new or upgraded information systems. We will also have to undergo a process of validating the data in

any new system to ensure its integrity and will need to train our personnel. We cannot assure you that these changes to our information systems will occur without some level of disruption of our operating processes and controls. Any material disruption, malfunction or similar problems with our information systems could negatively impact our business operations.

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

At July 31, 2006, indebtedness on outstanding 3.75% Convertible Notes due February 1, 2008 and 0.25% Convertible Senior Notes due May 1, 2013 totaled $842.3 million in aggregate principal. 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 repayment obligations associated with our convertible notes may adversely affect our business.

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. Volatility in our common stock price may also be affected by the one-for-seven reverse stock split of our common stock to be effective following the close of business on September 22, 2006. There is no assurance that the reverse stock split will have the intended effect of attracting a broader base of institutional and other investors. Following the reverse stock split, the price per Ciena share may not remain at or above the split adjusted price on the effective date. Moreover, by reducing the number of shares outstanding, the reverse stock split may adversely affect trading liquidity in our common stock.

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

(a) — (b) Not applicable.

(c) As initially disclosed in our Form 10-Q for the first quarter of fiscal 2005, Ciena does not repurchase its shares in open market transactions. Ciena's stock repurchase activity has consisted solely of Ciena's repurchase of outstanding shares in private transactions with certain former employees. Pursuant to the terms of equity compensation plans and certain award agreements that Ciena assumed in connection with its acquisitions of WaveSmith Networks, Inc. and Catena Networks Inc., employees were permitted to exercise certain stock options prior to vesting. Under these plans, upon the employee's termination of employment, Ciena was granted the right to repurchase the shares issued, to the extent that the option had not vested, at the grantee's exercise price. If Ciena determined not to exercise this repurchase right, the shares vested and remained owned by the grantee. As of May 1, 2006, no shares remained subject to repurchase pursuant to the terms above and Ciena's repurchase rights related to these equity awards had lapsed.

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 3.03 — Material Modification to Rights of Security Holders.

At Ciena's annual meeting on March 15, 2006, shareholders approved a proposal to authorize the Board of Directors, in its discretion, to effect a reverse stock split at one of three approved ratios, at any time prior to the 2007 annual meeting, without further action by shareholders. On August 30, 2006, our Board of Directors approved a one-for-seven (1-for-7) reverse stock split of our common stock.

The reverse stock split will become effective at 5:00 p.m., Eastern Time, on September 22, 2006. Pursuant to the reverse stock split, each seven shares of authorized and outstanding common stock will be reclassified and combined into one new share of common stock. As of the opening of the NASDAQ Global Select Market on September 25, 2006, Ciena's common stock will begin trading on a split-adjusted basis. For a period of approximately 20 trading days after the reverse stock split becomes effective, NASDAQ will append a "D" to Ciena's stock symbol (CIEN) in order to inform the investment community of the reverse stock split.

In connection with the reverse stock split, the number of shares of common stock authorized under Ciena's Third Restated Certificate of Incorporation will be reduced from 980 million to 140 million shares, without any change in par value per common share. After the reverse stock split, Ciena will have approximately 84.7 million shares of common stock outstanding. The reverse split will not change the number of shares of Ciena preferred stock authorized, which will remain at 20 million.

No fractional shares of common stock will be issued in connection with the reverse stock split. Instead, Ciena's transfer agent, Computershare Shareholder Services, will aggregate all fractional shares collectively held by Ciena shareholders into whole shares and arrange for them to be sold on the open market. Shareholders otherwise entitled to fractional shares will receive a cash payment in lieu of the fractional share, in an amount equal to the shareholder's pro rata share of the total net proceeds of these sales. Shareholders will not be entitled to receive interest for the period of time between the effective date of the reverse stock split and the date the shareholder receives his or her cash payment. Shareholders holding fewer than seven shares of Ciena common stock will receive only cash in lieu of fractional shares and will no longer hold any shares of Ciena common stock as of the effective time of the reverse stock split.

The exercise or conversion price, as well as the number of shares that can be issued, under outstanding stock options, warrants and convertible notes will be proportionately adjusted to reflect the reverse stock split. The number of shares authorized for issuance under Ciena's equity compensation plans will also be proportionately adjusted following the reverse stock split. Pursuant to the terms of Ciena's Rights Agreement, the number of rights attached to each share of common stock will be proportionately increased to reflect the reverse stock split.

Item 5.02 — Election of Director

(d) On August 30, 2006, the Board of Directors increased the size of the Board to nine directors and appointed Bruce L. Claflin to fill the newly created vacancy. Mr. Claflin was appointed to a vacancy in Class III on the Board. The term of office of Class III directors does not expire until the 2009 annual meeting. In accordance with Ciena's Principles of Corporate Governance, however, Mr. Claflin will stand for election by stockholders at the annual meeting of shareholders in 2007 to serve in Class III.

Item 6. Exhibits

Exhibit	Description
10.1	Amended and Restated 2003 Employee Stock Purchase Plan (as amended on May 30, 2006)*
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, 2006	By: /s/ Gary B. Smith
	Gary B. Smith President, Chief Executive Officer and Director (Duly Authorized Officer)
Date: August 31, 2006	By: /s/ Joseph R. Chinnici
	Joseph R. Chinnici Senior Vice President, Finance and Chief Financial Officer (Principal Financial Officer)

AMENDED AND RESTATED CIENA CORPORATION
2003 EMPLOYEE STOCK PURCHASE PLAN

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AMENDED AND RESTATED CIENA CORPORATION
2003 EMPLOYEE STOCK PURCHASE PLAN

The Board of Directors of Ciena Corporation (the “Company”) has adopted this Amended and Restated 2003 Employee Stock Purchase Plan (the “Plan”) to enable eligible employees of the Company and its participating Affiliates (as defined below), through payroll deductions, to purchase shares of the Company’s common stock, par value $0.01 per share (the “Common Stock”). The Plan is for the benefit of the employees of the Company and any participating Affiliates. The Plan is intended to benefit the Company by increasing the employees’ interest in the Company’s growth and success and encouraging employees to remain in the employ of the Company or its participating Affiliates. The provisions of the Plan are set forth below:

1. SHARES SUBJECT TO THE PLAN.

Subject to adjustment as provided in Section 26 below, the aggregate number of shares of Common Stock that may be made available for purchase by participating employees under the Plan is 25,000,000 shares; provided, that, beginning on December 31, 2005 and on each December 31 thereafter (the “Determination Date) there shall be added to the Plan an additional 4,000,000 shares; and provided further that, the number of shares so added on the Determination Date each year shall be reduced to the extent necessary that the total number of shares available for purchase under the Plan shall not at any time exceed 25,000,000. The shares issuable under the Plan may, in the discretion of the Board of Directors of the Company (the “Board”), be authorized but unissued shares, treasury shares or issued and outstanding shares that are purchased in the open market.

2. ADMINISTRATION.

The Plan shall be administered under the direction of the Compensation Committee of the Board (the “Committee”). No member of the Board or the Committee shall be liable for any action or determination made in good faith with respect to the Plan.

3. INTERPRETATION.

It is intended that the Plan will meet the requirements for an “employee stock purchase plan” under Section 423 of the Internal Revenue Code of 1986 (the “Code”), and it is to be so applied and interpreted. Subject to the express provisions of the Plan, the Committee shall have authority to interpret the Plan, to prescribe, amend and rescind rules relating to it, and to make all other determinations necessary or advisable in administering the Plan, all of which determinations will be final and binding upon all persons.

4. ELIGIBLE EMPLOYEES.

Any employee of the Company and its designated Affiliates as determined by the Board of Directors may participate in the Plan, except the following, who are ineligible to participate: (a) an employee who has been employed by the Company or any of its participating Affiliates for less than three months as of the beginning of an Offering Period (as defined in Section 7 below); (b) an employee whose customary employment is for less than five months in any calendar year; (c) an employee whose customary employment is less than 21 hours per week; and (d) an employee who, after exercising his or her rights to purchase shares under the Plan, would own shares of Common Stock (including shares that may be acquired under any outstanding options) representing five percent or more of the total combined voting power of all classes of stock of the Company. The term "participating Affiliate" means any company or other trade or business that is a subsidiary of the Company (determined in accordance with the principles of Sections 424(e) and (f) of the Code and the regulations thereunder). The Board may at any time in its sole discretion, if it deems it advisable to do so, terminate the participation of the employees of a particular participating Affiliate.

5. PARTICIPATION IN THE PLAN.

An eligible employee may become a participating employee in the Plan by completing an election to participate in the Plan on a form provided by the Company and submitting that form to the Benefits Department of the Company. The form will authorize payroll deductions (as provided in Section 6 below) and authorize the purchase of shares of Common Stock for the employee's account in accordance with the terms of the Plan. Enrollment will become effective upon the first day of the first Offering Period. Enrollment in this Plan is limited to one Offering Period at a time.

6. PAYROLL DEDUCTIONS.

At the time an eligible employee submits his or her election to participate in the Plan (as provided in Section 5 above), the employee shall elect to have deductions made from his or her pay, on each pay day following his or her enrollment in the Plan, and for as long as he or she shall participate in the Plan. The deductions will be credited to the participating employee's account under the Plan. An employee may not during any Offering Period change his or her amount or percentage of payroll deduction for that Offering Period, nor may an employee withdraw any contributed funds, other than in accordance with Sections 15 through 20 below.

7. RECORD OF PAYROLL DEDUCTIONS.

The Company and participating Affiliates will cause to be maintained a record of amounts credited to each participating employee authorizing a payroll deduction pursuant to Section 6. The Company will not credit interest on the balance of the employees' accounts during the Offering Period.

8. OFFERING AND PURCHASE PERIODS.

The Offering Periods and Purchase Period shall be determined by the Committee. The initial Offering Period shall commence on March 16, 2003 and end on March 15, 2005, and every Offering Period thereafter shall commence on the six month anniversary of the commencement of the prior Offering Period and shall be a 24-month period until changed by the Committee. The initial Purchase Period shall commence on March 16, 2003 and end on September 15, 2003, and every Purchase Period thereafter, shall commence immediately after the prior Purchase Period ends and shall be a six month period until changed by the Committee.

Effective September 15, 2006, the Committee changed the Offering Period from a 24-month period to a six month period. This change will affect all employees who commence enrollment on or after September 15, 2006. Offering Periods commencing before September 15, 2006 have been "grandfathered" and shall continue to run for the remaining period (if any) of the 24-month Offering Period applicable to each individual participant, provided that participants will not be entitled to reset their Offering Period.

9. RIGHTS TO PURCHASE COMMON STOCK; PURCHASE PRICE.

Rights to purchase shares of Common Stock will be deemed granted to participating employees as of the first trading day of each Offering Period. The purchase price of each share of Common Stock (the "Purchase Price") shall be 95 percent of the fair market value of the Common Stock on the last trading day of the Purchase Period. Notwithstanding the foregoing, Offering Periods commencing before September 15, 2006, have been "grandfathered" and the Purchase Price for such participants shall continue to be determined pursuant to the terms of the Plan in effect for such participant at the time of enrollment, provided that participants will not be entitled to reset their Offering Period. For purposes of the Plan, "fair market value" means the value of each share of Common Stock subject to the Plan determined as follows: if on the determination date the shares of Common Stock are listed on an established national or regional stock exchange, are admitted to quotation on the National Association of Securities Dealers Automated Quotation System, or are publicly traded on an established securities market, the fair market value of the shares of Common Stock shall be the closing price of the shares of Common Stock on such exchange or in such market (the exchange designated by the Board if there is more than one such exchange or market) on the determination date

(or if there is no such reported closing price, the fair market value shall be the mean between the highest bid and lowest asked prices or between the high and low sale prices on such trading day) or, if no sale of the shares of Common Stock is reported for such trading day, on the next preceding day on which any sale shall have been reported. If the shares of Common Stock are not listed on such an exchange, quoted on such System or traded on such a market, fair market value shall be determined by the Board in good faith.

10. TIMING OF PURCHASE; PURCHASE LIMITATION.

Unless a participating employee has given prior written notice terminating such employee's participation in the Plan, or the employee's participation in the Plan has otherwise been terminated as provided in Sections 16 through 20 below, such employee will be deemed to have exercised automatically his or her right to purchase Common Stock on the last trading day of the Purchase Period (except as provided in Section 15 below) for the number of shares of Common Stock which the accumulated funds in the employee's account at that time will purchase at the Purchase Price, subject to the participation adjustment provided for in Section 14 below and subject to adjustment under Section 26 below. Notwithstanding any other provision of the Plan, no employee may purchase in any one calendar year under the Plan and all other "employee stock purchase plans" of the Company and its participating Affiliates shares of Common Stock having an aggregate fair market value in excess of $25,000, determined as of the first trading date of the Offering Period as to shares purchased during such period. Effective upon the last trading day of the Purchase Period, a participating employee will become a stockholder with respect to the shares purchased during such period, and will thereupon have all dividend, voting and other ownership rights incident thereto. Notwithstanding the foregoing, no shares shall be sold pursuant to the Plan unless the Plan is approved by the Company's stockholders in accordance with Section 25 below.

11. ISSUANCE OF STOCK CERTIFICATES.

As of the last trading day of the Purchase Period, a participating employee will be credited with the number of shares of Common Stock purchased for his or her account under the Plan during such Offering Period. Shares purchased under the Plan will be held in the custody of an agent (the "Agent") appointed by the Committee. The Agent may hold the shares purchased under the Plan in stock certificates in nominee names and may commingle shares held in its custody in a single account or stock certificate without identification as to individual participating employees. A participating employee may, at any time following his or her purchase of shares under the Plan and after the expiration of the qualifying holding period, by written notice instruct the Agent to have all or part of such shares reissued in the participating employee's own name and have the stock certificate delivered to the employee.

12. WITHHOLDING OF TAXES.

To the extent that a participating employee realizes ordinary income in connection with a sale or other transfer of any shares of Common Stock purchased under the Plan, the Company may withhold amounts needed to cover such taxes from any payments otherwise due and owing to the participating employee or from shares that would otherwise be issued to the participating employee hereunder. Any participating employee who sells or otherwise transfers shares purchased under the Plan within two years after the beginning of the Offering Period in which the shares were purchased must within 30 days of such transfer notify the Payroll Department of the Company in writing of such transfer.

13. ACCOUNT STATEMENTS.

The Company will cause the Agent to deliver to each participating employee a statement for each Purchase Period during which the employee purchases Common Stock under the Plan, but no more frequently than every six months, reflecting the amount of payroll deductions during the Purchase Period, the number of shares purchased for the employee’s account, the price per share of the shares purchased for the employee’s account and the number of shares held for the employee’s account at the end of the Purchase Period.

14. PARTICIPATION ADJUSTMENT.

If in any Purchase Period the number of unsold shares that may be made available for purchase under the Plan pursuant to Section 1 above is insufficient to permit exercise of all rights deemed exercised by all participating employees pursuant to Section 9 above, a participation adjustment will be made, and the number of shares purchasable by all participating employees will be reduced proportionately. Any funds then remaining in a participating employee’s account after such exercise will be refunded to the employee.

15. CHANGES IN ELECTIONS TO PURCHASE.

(a) A participating employee may, at any time prior to the fifth business day before the last day of the Purchase Period, by written notice to the Company, direct the Company to cease payroll deductions (or, if the payment for shares is being made through periodic cash payments, notify the Company that such payments will be terminated), in accordance with the following alternatives:

(i) The employee’s option to purchase shall be reduced to the number of shares which may be purchased, as of the last day of the Purchase Period, with the amount then credited to the employee’s account; or

(ii) Withdraw the amount in such employee’s account and terminate such employee’s option to purchase.

(b) Any participating employee may decrease his or her payroll deduction or periodic cash payments, to take effect as soon as administratively practicable by delivering to the Company a new form regarding election to participate in the Plan under Section 5 above.

(c) Any participating employee may increase his or her payroll deduction or periodic cash payments, to take effect on the first day of the next following Offering Period by delivering to the Company a new form regarding election to participate in the Plan under Section 5 above.

16. TERMINATION OF EMPLOYMENT.

In the event a participating employee voluntarily leaves the employ of the Company or a participating Affiliate, otherwise than by retirement under a plan of the Company or a participating Affiliate, or is terminated by the Company prior to the last day of the Purchase Period, the amount in the employee’s account will be distributed and the employee’s option to purchase will terminate.

17. RETIREMENT.

In the event a participating employee who has an option to purchase shares leaves the employ of the Company or a participating Affiliate because of retirement under a plan of the Company or a participating Affiliate the participating employee may elect, within 60 days after the date of such retirement or termination, but, in no event, later than the end of the current Purchase Period, one of the following alternatives:

(a) The employee’s option to purchase shall be reduced to the number of shares which may be purchased, as of the last day of the Purchase Period, with the amount then credited to the employee’s account; or

(b) Withdraw the amount in such employee’s account and terminate such employee’s option to purchase.

In the event the participating employee does not make an election within the aforesaid 60-day period, he or she will be deemed to have elected subsection 17(b) above.

18. LAY-OFF, AUTHORIZED LEAVE OF ABSENCE OR DISABILITY.

Payroll deductions for shares for which a participating employee has an option to purchase may be suspended during any period of absence of the employee from work due to lay-off, authorized leave of absence or disability or, if the employee so elects, periodic payments for such shares may continue to be made in cash.

If such employee returns to active service prior to the last day of the Purchase Period, the employee's payroll deductions will be resumed and if said employee did not make periodic cash payments during the employee's period of absence, the employee shall, by written notice to the Company's Payroll Department within 10 days after the employee's return to active service, but not later than the last day of the Purchase Period, elect one of the following alternatives:

(a) The employee's option to purchase shall be reduced to the number of shares that can be purchased with the amount, if any, then credited to the employee's account plus the aggregate amount, if any, of all payroll deductions to be made thereafter; or

(b) Withdraw the amount in the employee's account and terminate the employee's option to purchase.

A participating employee on lay-off, authorized leave of absence or disability on the last day of the Purchase Period shall deliver written notice to his or her employer on or before the last day of the Purchase Period, electing one of the alternatives provided in the foregoing clauses (a) or (b) of this Section 18. If any employee fails to deliver such written notice within 10 days after the employee's return to active service or by the last day of the Purchase Period, whichever is earlier, the employee shall be deemed to have elected subsection 18(b) above.

If the period of a participating employee's lay-off, authorized leave of absence or disability shall terminate on or before the last day of the Purchase Period, and the employee shall not resume active employment with the Company or a participating Affiliate, the employee shall receive a distribution in accordance with the provisions of Section 17 of this Plan.

19. DEATH.

In the event of the death of a participating employee while the employee's option to purchase shares is in effect, the legal representatives of such employee may, within 60 days after the employee's death (but no later than the last day of the Purchase Period) by written notice to the Company or participating Affiliate, elect one of the following alternatives:

(a) The employee's option to purchase shall be reduced to the number of shares which may be purchased, as of the last day of the Purchase Period, with the amount then credited to the employee's account; or

(b) Withdraw the amount in such employee's account and terminate such employee's option to purchase.

In the event the legal representatives of such employee fail to deliver such written notice to the Company or participating Affiliate within the prescribed period, the election to purchase shares shall terminate and the amount, then credited to the employee's account shall be paid to such legal representatives.

20. TERMINATION OF PARTICIPATION.

A participating employee will be refunded all moneys in his or her account, and his or her participation in the Plan will be terminated if either (a) the Board elects to terminate the Plan as provided in Section 25 below, or (b) the employee ceases to be eligible to participate in the Plan under Section 4 above. As soon as practicable following termination of an employee's participation in the Plan, the Company will deliver to the employee a check representing the amount in the employee's account and a stock certificate representing the number of whole shares held in the employee's account. Once terminated, participation may not be reinstated for the then current Offering Period, but, if otherwise eligible, the employee may elect to participate in any subsequent Offering Period.

21. ASSIGNMENT.

No participating employee may assign his or her rights to purchase shares of Common Stock under the Plan, whether voluntarily, by operation of law or otherwise. Any payment of cash or issuance of shares of Common Stock under the Plan may be made only to the participating employee (or, in the event of the employee's death, to the employee's estate). Once a stock certificate has been issued to the employee or for his or her account, such certificate may be assigned the same as any other stock certificate.

22. APPLICATION OF FUNDS.

All funds received or held by the Company under the Plan shall be deposited with the Agent for the account of the participating employees. Participating employees' accounts will not be segregated.

23. NO RIGHT TO CONTINUED EMPLOYMENT.

Neither the Plan nor any right to purchase Common Stock under the Plan confers upon any employee any right to continued employment with the Company or any of its participating Affiliates, nor will an employee's participation in the Plan restrict or interfere in any way with the right of the Company or any of its participating Affiliates to terminate the employee's employment at any time.

24. AMENDMENT OF PLAN.

The Board may, at any time, amend the Plan in any respect (including an increase in the percentage specified in Section 9 above used in calculating the Purchase Price). An amendment to the Plan shall be contingent on approval of the stockholders of the Company only to the extent required by applicable law, regulations or rules or as provided by the Board.

25. EFFECTIVE DATE; TERM AND TERMINATION OF THE PLAN.

The Plan shall be effective as of the date of adoption by the Board, which date is set forth below, subject to approval of the Plan by a majority of the votes present and entitled to vote at a duly held meeting of the shareholders of the Company at which a quorum representing a majority of all outstanding voting stock is present, either in person or by proxy; provided, however, that upon approval of the Plan by the shareholders of the Company as set forth above, all rights to purchase shares granted under the Plan on or after the effective date shall be fully effective as if the shareholders of the Company had approved the Plan on the effective date. If the shareholders fail to approve the Plan on or before one year after the effective date, the Plan shall terminate, any rights to purchase shares granted hereunder shall be null and void and of no effect and all contributed funds shall be refunded to participating employees. The Board may terminate the Plan at any time and for any reason or for no reason, provided that such termination shall not impair any rights of participating employees that have vested at the time of termination. In any event, the Plan shall, without further action of the Board, terminate ten (10) years after the date of adoption of the Plan by the Board or, if earlier, at such time as all shares of Common Stock that may be made available for purchase under the Plan pursuant to Section 1 above have been issued.

26. EFFECT OF CHANGES IN CAPITALIZATION.

(a) Changes in Stock.

If the number of outstanding shares of Common Stock is increased or decreased or the shares of Common Stock are changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of any recapitalization, reclassification, stock split, reverse split, combination of shares, exchange of shares, stock dividend, or other distribution payable in capital stock, or other increase or decrease in such shares effected without receipt of consideration by the Company occurring after the effective date of the Plan, the number and kinds of shares that may be purchased under the Plan shall be adjusted proportionately and accordingly by the Company. In addition, the number and kind of shares for which rights are outstanding shall be similarly adjusted so that the proportionate interest of a participating employee immediately following such event shall, to the extent practicable, be the same as immediately prior to such event. Any such adjustment in outstanding rights shall not change the aggregate

Purchase Price payable by a participating employee with respect to shares subject to such rights, but shall include a corresponding proportionate adjustment in the Purchase Price per share.

(b) Reorganization in Which the Company Is the Surviving Corporation.

Subject to Subsection (c) of this Section 26, if the Company shall be the surviving corporation in any reorganization, merger or consolidation of the Company with one or more other corporations, all outstanding rights under the Plan shall pertain to and apply to the securities to which a holder of the number of shares of Common Stock subject to such rights would have been entitled immediately following such reorganization, merger or consolidation, with a corresponding proportionate adjustment of the Purchase Price per share so that the aggregate Purchase Price thereafter shall be the same as the aggregate Purchase Price of the shares subject to such rights immediately prior to such reorganization, merger or consolidation.

(c) Reorganization in Which the Company Is Not the Surviving Corporation or Sale of Assets or Stock.

Upon any dissolution or liquidation of the Company, or upon a merger, consolidation or reorganization of the Company with one or more other corporations in which the Company is not the surviving corporation, or upon a sale of all or substantially all of the assets of the Company to another corporation, or upon any transaction (including, without limitation, a merger or reorganization in which the Company is the surviving corporation) approved by the Board that results in any person or entity owning more than 80 percent of the combined voting power of all classes of stock of the Company, the Plan and all rights outstanding hereunder shall terminate, except to the extent provision is made in writing in connection with such transaction for the continuation of the Plan and/or the assumption of the rights theretofore granted, or for the substitution for such rights of new rights covering the stock of a successor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kinds of shares and exercise prices, in which event the Plan and rights theretofore granted shall continue in the manner and under the terms so provided. In the event of any such termination of the Plan, all current Purchase Periods and Offering Periods shall be deemed to have ended on the last trading day prior to such termination, and in accordance with Section 10 above the rights of each participating employee then outstanding shall be deemed to be automatically exercised on such last trading day. The Board shall send written notice of an event that will result in such a termination to all participating employees not later than the time at which the Company gives notice thereof to its stockholders.

(d) Adjustments.

Adjustments under this Section 26 related to stock or securities of the Company shall be made by the Committee, whose determination in that respect shall be final, binding, and conclusive.

(e) No Limitations on Company.

The grant of a right pursuant to the Plan shall not affect or limit in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge, consolidate, dissolve or liquidate, or to sell or transfer all or any part of its business or assets.

27. GOVERNMENTAL REGULATION.

The Company’s obligation to issue, sell and deliver shares of Common Stock pursuant to the Plan is subject to such approval of any governmental authority and any national securities exchange or other market quotation system as may be required in connection with the authorization, issuance or sale of such shares.

28. STOCKHOLDER RIGHTS.

Any dividends paid on shares held by the Company for a participating employee’s account will be transmitted to the employee. The Company will deliver to each participating employee who purchases shares of Common Stock under the Plan, as promptly as practicable by mail or otherwise, all notices of meetings, proxy statements, proxies and other materials distributed by the Company to its stockholders. Any shares of Common Stock held by the Agent for an employee’s account will be voted in accordance with the employee’s duly delivered and signed proxy instructions. There will be no charge to participating employees in connection with such notices, proxies and other materials.

29. RULE 16B-3.

Transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3 or any successor provision under the Securities Exchange Act of 1934, as amended. If any provision of the Plan or action by the Board fails to so comply, it shall be deemed null and void to the extent permitted by law and deemed advisable by the Board. Moreover, in the event the Plan does not include a provision required by Rule 16b-3 to be stated herein, such provision (other than one relating to eligibility requirements, or the price and amount of awards) shall be deemed automatically to be incorporated by reference into the Plan.

30. PAYMENT OF PLAN EXPENSES.

The Company will bear all costs of administering and carrying out the Plan; provided however, participating employees shall bear all costs incurred subsequent to the issuance of stock certificates pursuant to Section 11.

* * *

This Plan was duly adopted and approved by the Board of Directors on January 24, 2003 and amended by action of the Board or a committee thereof on December 8, 2004, March 3, 2005 and May 30, 2006. This Plan, as amended, was approved by action of the stockholders on March 12, 2003 and March 16, 2005.

/S/ Russell B. Stevenson, Jr.

Secretary of the Company

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, 2006

/s/ Gary B. Smith

Gary B. Smith
President and Chief Executive Officer

EXHIBIT 31.2

CIENA CORPORATION

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Joseph R. Chinnici, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 31, 2006

/s/ Joseph R. Chinnici

Joseph R. Chinnici
Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

CIENA CORPORATION

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

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

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

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

/s/ Gary B. Smith
Gary B. Smith
President and Chief Executive Officer
August 31, 2006

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

EXHIBIT 32.2

CIENA CORPORATION

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

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

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

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

/s/ Joseph R. Chinnici
Joseph R. Chinnici
Senior Vice President and Chief Financial Officer
August 31, 2006

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