# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, DC 20549**

# FORM 10-Q

(Mark one)

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

**For the quarterly period ended April 30, 2003**

**OR**

**( ) 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**<br>(State or other jurisdiction of incorporation or organization) | **23-2725311**<br>(I.R.S. Employer Identification No.) |
| **1201 Winterson Road, Linthicum, MD**<br>(Address of Principal Executive Offices) | **21090**<br>(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 (X) NO ( )

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). YES ( ) NO (X)

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 May 20, 2003 |
|---|---|
| Common stock. $0.01 par value | 435,089,196 |

**CIENA CORPORATION**

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**FORM 10-Q**

**PART I — FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | April 30, 2002 | April 30, 2003 | April 30, 2002 | April 30, 2003 |
| Revenue | $ 87,053 | $ 73,540 | $ 249,209 | $ 144,014 |
| Provision (benefit) for excess and obsolete inventory costs | 223,277 | (1,446) | 243,691 | (4,103) |
| Cost of goods sold | 87,525 | 56,771 | 206,798 | 113,637 |
| Gross profit (loss) | (223,749) | 18,215 | (201,280) | 34,480 |
| Operating expenses: | | | | |
| Research and development *(exclusive of $3,465, $3,406, $7,417 and $7,204 deferred stock compensation costs)* | 59,558 | 52,193 | 124,314 | 105,927 |
| Selling and marketing *(exclusive of $851, $676, $1,807 and $1,436 deferred stock compensation costs)* | 29,835 | 25,663 | 67,435 | 52,269 |
| General and administrative (*exclusive of $176, $346, $402 and $719 deferred stock compensation costs)* | 13,276 | 8,066 | 26,931 | 20,272 |
| Deferred stock compensation costs | 4,492 | 4,428 | 9,626 | 9,359 |
| Amortization of intangible assets (*exclusive of $0 $968, $0 and $1,349 included in cost of goods sold related to certain technology licenses)* | 1,813 | 3,421 | 3,626 | 6,974 |
| Nortel Networks settlement costs | — | — | — | 2,500 |
| Restructuring costs | 121,348 | 2,724 | 128,176 | 2,724 |
| Provision for doubtful accounts | 16,055 | — | 16,055 | — |
| Total operating expenses | 246,377 | 96,495 | 376,163 | 200,025 |
| Loss from operations | (470,126) | (78,280) | (577,443) | (165,545) |
| Interest and other income (expense), net | 15,045 | 11,131 | 31,217 | 24,432 |
| Interest expense | (8,637) | (8,061) | (19,142) | (20,264) |
| Loss on equity investments, net | (434) | — | (5,740) | (10) |
| Loss on extinguishment of debt | — | — | — | (20,606) |
| Loss before income taxes | (464,152) | (75,210) | (571,108) | (181,993) |
| Provision for income taxes | 148,001 | 251 | 111,636 | 610 |
| Net loss | $(612,153) | $ (75,461) | $(682,744) | $(182,603) |
| Basic net loss per common share | $ (1.86) | $ (0.17) | $ (2.08) | $ (0.42) |
| Diluted net loss per common share and dilutive potential common share | $ (1.86) | $ (0.17) | $ (2.08) | $ (0.42) |
| Weighted average basic common shares outstanding | 328,764 | 433,932 | 328,312 | 433,330 |
| Weighted average basic common and dilutive potential common shares outstanding | 328,764 | 433,932 | 328,312 | 433,330 |

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

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

| | October 31, 2002 | April 30, 2003 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 377,189 | $ 509,407 |
| Short-term investments | 1,130,414 | 730,039 |
| Accounts receivable, net | 28,680 | 32,432 |
| Inventories, net | 47,023 | 31,935 |
| Prepaid expenses and other | 54,351 | 35,801 |
| Total current assets | 1,637,657 | 1,339,614 |
| Long-term investments | 570,861 | 578,198 |
| Equipment, furniture and fixtures, net | 196,951 | 155,008 |
| Goodwill | 212,500 | 212,500 |
| Other intangible assets, net | 62,457 | 76,634 |
| Other long term assets | 70,596 | 67,814 |
| Total assets | $ 2,751,022 | $ 2,429,768 |
| LIABILITIES AND STOCKHOLDERS’ EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 39,841 | $ 42,777 |
| Accrued liabilities | 132,588 | 112,095 |
| Restructuring liabilities | 27,423 | 12,272 |
| Unfavorable lease commitments | 7,630 | 8,354 |
| Income taxes payable | — | 5,258 |
| Deferred revenue | 15,388 | 18,850 |
| Other current obligations | 948 | — |
| Total current liabilities | 223,818 | 199,606 |
| Long-term deferred revenue | 15,444 | 13,835 |
| Long-term restructuring liabilities | 65,742 | 57,416 |
| Long-term unfavorable lease commitments | 70,124 | 65,709 |
| Other long-term obligations | 5,009 | 3,074 |
| Convertible notes payable | 843,616 | 728,523 |
| Total liabilities | 1,223,753 | 1,068,163 |
| 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; 432,842,481 and 435,003,124 shares issued and outstanding | 4,328 | 4,350 |
| Additional paid-in capital | 4,683,865 | 4,686,102 |
| Deferred stock compensation | (24,983) | (12,242) |
| Notes receivable from stockholders | (3,866) | (798) |
| Accumulated other comprehensive income | 8,840 | 7,711 |
| Accumulated deficit | (3,140,915) | (3,323,518) |
| Total stockholders’ equity | 1,527,269 | 1,361,605 |
| Total liabilities and stockholders’ equity | $ 2,751,022 | $ 2,429,768 |

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

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

| | Six Months Ended April 30, | |
|---|---|---|
| | 2002 | 2003 |
| Cash flows from operating activities: | | |
| Net loss | $(682,744) | $(182,603) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Early extinguishment of debt | — | 20,606 |
| Non-cash charges from equity investments, net | 3,755 | 10 |
| Non-cash portion of restructuring charges and related asset write-downs | 94,847 | 15,953 |
| Accretion of notes payable | 4,530 | 4,527 |
| Non-cash charge for retirement of asset | — | 87 |
| Effect of accumulated other comprehensive income (loss) | (1,614) | (2,254) |
| Depreciation and amortization | 68,221 | 43,041 |
| Amortization of intangibles, deferred stock compensation and debt issuance costs | 14,766 | 19,195 |
| Provision (benefit) for inventory excess and obsolescence | 210,239 | (4,103) |
| Provision for doubtful accounts | 16,055 | — |
| Provision for warranty and other contractual obligations | 10,731 | 3,405 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 318,925 | (3,752) |
| Inventories | (30,844) | 19,191 |
| Deferred income tax asset | 113,143 | — |
| Prepaid expenses and other | 20,726 | (2,692) |
| Accounts payable and accruals | (8,897) | (51,114) |
| Income taxes payable | (399) | 5,258 |
| Deferred income tax liability | (5,754) | — |
| Deferred revenue and other obligations | 2,812 | 1,853 |
| Net cash provided by (used in) operating activities | 148,498 | (113,392) |
| Cash flows from investing activities: | | |
| Additions to equipment, furniture and fixtures | (46,361) | (14,195) |
| Purchases of available-for-sale investments | (568,273) | (325,483) |
| Maturities of available-for-sale investments | 755,989 | 718,521 |
| Minority equity investments | (4,999) | — |
| Net cash provided by investing activities | 136,356 | 378,843 |
| Cash flows from financing activities: | | |
| Net repayment of other obligations | (803) | (914) |
| Net repurchase of convertible subordinated notes payable | (178,413) | (139,211) |
| Proceeds from issuance of common stock and warrants | 10,240 | 5,326 |
| Repayment of notes receivable from stockholders | 963 | 1,566 |
| Net cash used in financing activities | (168,013) | (133,233) |
| Net change in cash and cash equivalents | 116,841 | 132,218 |
| Cash and cash equivalents at beginning of period | 397,890 | 377,189 |
| Cash and cash equivalents at end of period | $ 514,731 | $ 509,407 |

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

## CIENA CORPORATION
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
## (unaudited)

### 1) SIGNIFICANT ACCOUNTING POLICIES

**Interim Financial Statements**

The interim financial statements included herein for CIENA Corporation (the "Company" or "CIENA") have been prepared by the Company, 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 the Company considers necessary for the fair presentation of the results of operations for the interim periods covered and of the financial position of the Company 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, the Company 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 the Company's October 31, 2002 audited consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the fiscal year ended October 31, 2002.

**Critical Accounting Policies and Estimates**

The preparation of consolidated financial statements requires CIENA to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, CIENA re-evaluates its 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 CIENA believes 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. CIENA believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

*Revenue Recognition*

CIENA recognizes product revenue in accordance with the shipping terms specified and where collection is reasonably assured. For transactions where CIENA has yet to obtain customer acceptance, revenue is deferred until the terms of acceptance are satisfied. Revenue for installation services is recognized as the services are performed unless the terms of the supply contract combine product acceptance with installation. Revenue from installation services are recognized when the terms of acceptance are satisfied and installation is completed. Revenue from installation service fixed-price contracts are recognized on the percentage-of-completion method, measured by the percentage of costs incurred to date compared to estimated total costs for each contract. Amounts received in excess of revenue recognized are included as deferred revenue in the accompanying balance sheet. For transactions involving the sale of software, revenue is recognized in accordance with Statement of Position No. 97-2 ("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 distributor sales where risks of ownership have not transferred, CIENA recognizes revenue when the product is shipped through to the end user.

*Allowances for Doubtful Accounts*

CIENA maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of CIENA's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As of April 30, 2003, CIENA's accounts receivable balance, net of allowances for doubtful accounts of $9.7 million, was $32.4 million, which included three customers who accounted for 20.9%, 17.4%, and 12.3% of the net trade accounts receivable.

*Warranties*

CIENA provides for the estimated cost of product warranties at the time revenue is recognized. CIENA engages in extensive product quality programs and processes including actively monitoring and evaluating the quality of its component suppliers and third party contractors. CIENA's warranty obligation is affected by product failure rates and material usage and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage or service delivery costs differ from CIENA's estimates, a revision to the estimated warranty liability would be required.

*Reserve for Inventory Obsolescence*

CIENA writes down its inventory for estimated obsolescence or unmarketable inventory 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 six months ended April 30, 2003, CIENA recorded a benefit for inventory reserves of $4.1 million, primarily related to the realization of sales from previously reserved excess inventory. If actual market conditions differ from those CIENA has projected, CIENA may be required to take additional inventory write-downs or to record additional 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 utilized. The provision is equal to the future minimum lease payments under contractual obligations offset by estimated future sublease payments. As of the end of the first six months of fiscal 2003, CIENA's accrued restructuring liability related to net lease expense and other related charges was $68.6 million. If actual market conditions are less favorable than those CIENA has projected, CIENA may be required to recognize additional restructuring costs associated with these facilities.

*Minority Investments*

CIENA holds minority interests in several companies having operations or technology in areas within its strategic focus. As of April 30, 2003, $16.0 million of these investments are included in other long-term assets. CIENA records an investment impairment charge when it believes an investment has experienced a decline in value that is other than temporary. During the six months ended April 30, 2003, no material impairment charges were recorded. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future.

*Impairment of Goodwill*

Effective November 1, 2001, CIENA adopted Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") and ceased to amortize goodwill. As of April 30, 2003, CIENA's assets include $212.5 million related to goodwill. SFAS 142 requires that CIENA cease to amortize goodwill and test it 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 CIENA below its earnings amount. CIENA performed the required annual impairment assessment of goodwill balances in accordance with the provisions of SFAS 142 during the fourth quarter of fiscal 2002, which resulted in a goodwill impairment charge of $557.3 million. Since no event occurred or circumstances changed during the first six months of fiscal 2003 that would, more likely than not, reduce the fair value of CIENA below its earnings amount, no impairment was recorded in the first six months of fiscal 2003. If actual market conditions are less favorable than those CIENA projected, or if an event occurs or circumstances change that would, more likely than not, reduce the fair value of CIENA below its earnings amount, CIENA may be required to recognize additional goodwill impairment charges.

*Deferred Tax Valuation Allowance*

As of April 30, 2003, CIENA has recorded a valuation allowance of $804.0 million against the gross deferred tax assets of $804.0 million. CIENA calculated the valuation allowance in accordance with the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109") which requires an assessment of both positive and negative evidence when measuring the need for a valuation allowance. Positive evidence, such as operating results during the most recent three-year period, is given more weight when due to the current lack of visibility, there is a greater degree of uncertainty that the level of future profitability needed to record the deferred assets will be achieved. CIENA's results over the most recent three-year period were heavily affected by CIENA's recent deliberate and planned business restructuring activities. CIENA's cumulative loss in the most recent three-year period represents sufficient negative evidence to require a valuation allowance under the provisions of SFAS 109. CIENA intends to maintain a valuation allowance until sufficient positive evidence exists to support its reversal.

*Accounting for Stock Options*

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 123 (“SFAS 123”), “Accounting for Stock-Based Compensation”. SFAS 123 allows companies to account for stock-based compensation either under the new provisions of SFAS 123 or using the intrinsic value method provided by Accounting Principles Board Opinion No. 25 (“APB 25”), “Accounting for Stock Issued to Employees”, but requires pro forma disclosure in the footnotes to the financial statements as if the measurement provisions of SFAS 123 had been adopted.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 148, “Accounting for Stock-Based Compensation-Transition and Disclosure” (“SFAS 148”). SFAS 148 amends SFAS 123, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS 148 is effective for financial statements for fiscal years ending after December 15, 2002.

The Company has elected to continue to account for its stock-based compensation in accordance with the provisions of APB 25 as interpreted by FASB Interpretation No. 44, “Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25”, (“FIN 44”) and present the pro forma disclosures required by SFAS 123 as amended by SFAS 148. See Note 12.

*Newly Issued Accounting Standards*

In November 2002, the FASB issued FASB Interpretation No. 45 (“FIN 45”), “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.” FIN 45 requires that a liability be recorded in the guarantor’s balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued, including a reconciliation of changes in the entity’s product warranty liabilities. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor’s fiscal year end. The disclosure requirements of FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of this standard did not have a material impact on CIENA’s financial statements.

In November 2002, the Emerging Issues Task Force (“EITF”) reached a consensus on Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables.” EITF Issue No. 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF Issue No. 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The company believes that the adoption of this standard will have no material impact on its financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46 (“FIN 46”), “Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51.” FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The company believes that the adoption of this standard will have no material impact on its financial statements.

In April 2003, the FASB issued SFAS No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities.” SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The statement requires that contracts with comparable characteristics be accounted for similarly and clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, except in certain circumstances, and for hedging relationships designated after June 30, 2003. The Company does not expect that the adoption of this standard will have a material effect on its financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.” This Statement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) because that financial instrument embodies an obligation of the issuer. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. The Company does not expect that the adoption of this standard will have a material effect on its financial position or results of operations.

*Reclassification*

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

**2) RESTRUCTURING COSTS**

The following table displays the activity and balances of the restructuring reserve account for the period ended April 30, 2003 (in thousands):

| | Workforce reduction | Consolidation of excess facilities | Liabilities recorded in connection with purchase combination | Total |
|---|---|---|---|---|
| Initial reserve recorded | $ — | $ 15,439 (a) | $ — | $ 15,439 |
| Non-cash charges | — | — | — | — |
| Cash payments | — | — | — | — |
| Balance at October 31, 2001 | — | 15,439 | — | 15,439 |
| Additional reserve recorded | 32,929 (b) | 192,500 (b) | 3,792 (c) | 229,221 |
| Non-cash charges | (893) | (113,596) | — | (114,489) |
| Cash payments | (26,837) | (6,498) | (3,671) | (37,006) |
| Balance at October 31, 2002 | 5,199 | 87,845 | 121 | 93,165 |
| Additional reserve recorded | 3,952 (d) | 455 (d) | — | 4,407 |
| Adjustment to previous estimates | (523)(d) | (1,160)(d) | — | (1,683) |
| Non-cash charges | (1,913) | (11,293) | — | (13,206) |
| Cash payments | (5,654) | (7,220) | (121) | (12,995) |
| Balance at April 30, 2003 | $ 1,061 | $ 68,627 | $ — | $ 69,688 |
| Current restructuring liabilities | $ 1,061 | $ 11,211 | $ — | $ 12,272 |
| Non-current restructuring liabilities | $ — | $ 57,416 | $ — | $ 57,416 |

(a) During the fiscal year ended October 31, 2001, CIENA recorded a restructuring charge of $15.4 million relating to consolidation of excess facilities. The consolidation of excess facilities included the closure of certain manufacturing warehouse facilities and the consolidation of certain operational centers related to business activities that were restructured. The charge included $7.0 million primarily related to lease terminations and non-cancelable lease costs and also included an $8.4 million write-down related to property and equipment consisting primarily of leasehold improvements and production equipment.

(b) On November 12, 2001,CIENA announced a workforce reduction of approximately 380 employees concentrated in manufacturing operations staff. CIENA recorded a restructuring charge of $6.8 million associated with this action.

On February 5, 2002, CIENA announced a workforce reduction of approximately 400 employees largely concentrated in manufacturing operations and research and development activities associated with the closure of CIENA’s Marlborough, Massachusetts research and development facility. On March 26, 2002, CIENA announced a company-wide workforce reduction of approximately 650 employees. CIENA recorded a restructuring charge of $121.4 million associated with the workforce reductions, lease terminations, non-cancelable lease costs and the write-down of certain property, equipment and leasehold improvements associated with this action.

As a result of the CIENA and ONI integration and restructuring activities, CIENA recorded a charge of $11.0 million during the quarter ended July 31, 2002 associated with workforce reductions of approximately 66 employees, lease terminations, non-cancelable lease costs and the write-down of certain property, equipment and leasehold improvements. Also during the quarter ended July 31, 2002, CIENA recorded an additional restructuring charge of approximately $7.6 million to increase the estimated cost of the net lease expense for previously restructured facilities.

On September 20, 2002, CIENA announced a company-wide workforce reduction of approximately 450 employees. CIENA recorded a restructuring charge of $78.7 million associated with the workforce reductions, lease terminations, non-cancelable lease costs and the write-down of certain property, equipment and leasehold improvements associated with this action.

(c) During the third quarter of fiscal 2002, CIENA and ONI Systems Corp. reduced their combined workforce by approximately 283 employees. Approximately $3.8 million of costs associated with the ONI workforce reduction qualify for treatment under EITF 95-3 “Recognition of Liabilities in Connection with a Purchase Combination” and were recorded as an element of the acquisition.

(d) On April 2, 2003, CIENA reduced its workforce by approximately 75 employees. CIENA recorded a net restructuring charge of $2.7 million associated with the workforce reduction.

Since the fourth quarter of fiscal 2001, CIENA has recorded a net charge of $122.7 million related to the write-down and disposal of certain property, equipment and leasehold improvements. These assets are being carried at their fair market value less selling and disposal costs. The remaining facilities balance is related to the net lease expense. This will be paid over the respective lease terms through fiscal 2019.

### 3) MARKETABLE DEBT AND EQUITY SECURITIES

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

| | April 30, 2003 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Corporate bonds | $ 411,673 | $1,599 | $— | $ 413,272 |
| Asset backed obligations | 227,062 | 1,248 | — | 228,310 |
| Municipal bonds | 5,122 | 41 | — | 5,163 |
| Commercial paper | 12,497 | 61 | — | 12,558 |
| US government obligations | 643,680 | 5,254 | — | 648,934 |
| Money market funds | 509,407 | — | — | 509,407 |
| | $1,809,441 | $8,203 | $— | $1,817,644 |
| Included in cash and cash equivalents | $ 509,407 | $ — | $— | $ 509,407 |
| Included in short-term investments | 726,307 | 3,732 | — | 730,039 |
| Included in long-term investments | 573,727 | 4,471 | — | 578,198 |
| | $1,809,441 | $8,203 | $— | $1,817,644 |

| | October 31, 2002 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Loses | Estimated Fair Value |
| Corporate bonds | $ 669,699 | $ 2,639 | $521 | $ 671,817 |
| Asset-backed obligations | 109,755 | 625 | — | 110,380 |
| Municipal bonds | 20,745 | 92 | — | 20,837 |
| Commercial paper | 98,215 | 119 | — | 98,334 |
| US obligations | 793,327 | 6,580 | — | 799,907 |
| Money market funds | 377,189 | — | — | 377,189 |
| | $2,068,930 | $10,055 | $521 | $2,078,464 |
| Included in cash and cash equivalents | $ 377,189 | $ — | $ — | $ 377,189 |
| Included in short-term investments | 1,126,733 | 4,202 | 521 | 1,130,414 |
| Included in long-term investments | 565,008 | 5,853 | — | 570,861 |
| | $2,068,930 | $10,055 | $521 | $2,078,464 |

The following table summarizes maturities of debt investments (including restricted investments) at April 30, 2003 (in thousands):

| | Amortized Cost | Estimated Fair Value |
|---|---|---|
| Less than one year | $ 726,307 | $ 730,039 |
| Due in 1-2 years | 545,219 | 549,543 |
| Due in 2-5 years | 28,508 | 28,655 |
| | $1,300,034 | $1,308,237 |

### 4) ACCOUNTS RECEIVABLE

As of April 30, 2003, the trade accounts receivable included three customers who accounted for 20.9%, 17.4%, and 12.3% of the trade accounts receivable. As of October 31, 2002, the trade accounts receivable included three customers who accounted for 19.3%, 15.0%, and 12.8% of the trade accounts receivable.

CIENA performs ongoing credit evaluations of its customers and generally has not required collateral or other forms of security from its customers. CIENA maintains an allowance for potential losses on a specific identification basis. CIENA’s allowance for doubtful accounts as of April 30, 2003 and October 31, 2002 was $9.7 million and $9.5 million, respectively.

## 5) INVENTORIES

Inventories are comprised of the following (in thousands):

| | October 31, 2002 | April 30, 2003 |
|---|---|---|
| Raw materials | $ 34,025 | $ 21,831 |
| Work-in-process | 12,658 | 5,266 |
| Finished goods | 48,485 | 36,330 |
| | 95,168 | 63,427 |
| Less reserve for excess and obsolescence | (48,145) | (31,492) |
| | $ 47,023 | $ 31,935 |

During the six months ended April 30, 2003, the Company recorded a benefit for excess inventory of $4.1 million, primarily related to the realization of sales from previously reserved excess inventory. The following is a summary of the change in the reserve for excess and obsolete inventory during the six months ended April 30, 2003 (in thousands):

| | Inventory Reserve |
|---|---|
| Reserve balance as of Oct. 31, 2002 | $ 48,145 |
| Benefit for excess inventory | (4,103) |
| Actual inventory scrapped | (12,550) |
| Reserve balance as of April 30, 2003 | $ 31,492 |

The following is a summary of the change in the reserve for excess and obsolete inventory during the six months ended April 30, 2002 (in thousands):

| | Inventory Reserve |
|---|---|
| Reserve balance as of Oct. 31, 2001 | $ 53,804 |
| Provision for excess inventory | 210,239 |
| Actual inventory scrapped | (137,637) |
| Reserve balance as of April 30, 2002 | $ 126,406 |

During the six months ended April 30, 2002, the Company recorded a provision for excess inventory of $210.2 million and a charge for excess inventory purchase commitments of $33.5 million.

## 6) EQUIPMENT, FURNITURE AND FIXTURES

Equipment, Furniture and Fixtures are comprised of the following (in thousands):

| | October 31, 2002 | April 30, 2003 |
|---|---|---|
| Equipment, furniture and fixtures | $ 380,316 | $ 385,347 |
| Leasehold improvements | 78,761 | 69,822 |
| | 459,077 | 455,169 |
| Accumulated depreciation and amortization | (266,501) | (300,191) |
| Construction in-progress | 4,375 | 30 |
| | $ 196,951 | $ 155,008 |

During the six months ended April 30, 2003, the Company recorded net charges of $0.5 million related to the write-down and disposal of certain property, equipment and leasehold improvements as part of its restructuring program. See Note 2.

## 7) OTHER INTANGIBLE ASSETS

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

| | October 31, 2002 | | | April 30, 2003 | | |
|---|---|---|---|---|---|---|
| | Gross Intangible | Accumulated Amortization | Net Intangible | Gross Intangible | Accumulated Amortization | Net Intangible |
| Developed technology | $60,700 | $(11,409) | $49,291 | $60,700 | $(15,744) | $44,956 |
| Patents and licenses | 14,155 | (1,989) | 12,166 | 36,655 | (5,194) | 31,461 |
| Covenants not to compete | 2,100 | (1,100) | 1,000 | 2,100 | (1,883) | 217 |
| | $76,955 | | $62,457 | $99,455 | | $76,634 |

Upon acquiring ONI Systems Corp., CIENA became the defendant in the lawsuit originally brought on March 10, 2000, against ONI by Nortel Networks Inc. in the United States District Court for the Northern District of California. In addition, on November 27, 2002, Nortel Networks filed another complaint in the United States District Court for the Eastern District of Texas. In January 2003, CIENA reached an agreement with Nortel Networks to resolve both lawsuits. Under the agreement, CIENA made a one-time payment of $25 million to Nortel Networks, and Nortel Networks granted CIENA a license under the patents in suit and certain related patents. Both lawsuits have been dismissed, and Nortel Networks and CIENA have agreed not to sue each other for patent infringement for two years, during which time they will seek to negotiate a cross-license arrangement between them. CIENA accounted for the $25.0 million liability by recording an expense of $2.5 million in first quarter 2003 related to the settlement of the litigation, and recording the remaining $22.5 million as an intangible asset that will be amortized over eight years based upon the expected life of the patent rights acquired in the settlement.

The aggregate amortization expense of other intangible assets was $1.8 million and $4.4 million for the quarters ended April 30, 2002 and 2003, respectively. Expected future amortization of other intangible assets is as follows (in thousands):

| | |
|---|---|
| Year ended October 31, | |
| 2003 (remaining six months) | $ 8,342 |
| 2004 | 12,541 |
| 2005 | 12,541 |
| 2006 | 12,541 |
| 2007 | 12,541 |
| Thereafter | 18,128 |
| | $76,634 |

## 8) OTHER BALANCE SHEET DETAILS

Other long-term assets are comprised of the following (in thousands):

| | October 31, 2002 | April 30, 2003 |
|---|---|---|
| Maintenance spares inventory, net | $27,170 | $26,211 |
| Deferred debt issuance costs | 15,897 | 14,383 |
| Investments in privately held companies | 16,052 | 16,042 |
| Other | 11,477 | 11,178 |
| | $70,596 | $67,814 |

Accrued liabilities (in thousands):

| | October 31, 2002 | April 30, 2003 |
|---|---|---|
| Warranty | $ 42,040 | $ 38,291 |
| Other contractual obligations | 3,458 | 1,851 |
| Accrued compensation, payroll related tax and benefits | 37,466 | 37,306 |
| Accrued excess inventory purchase commitments | 1,892 | 1,680 |
| Accrued interest payable | 6,981 | 6,579 |
| Accrued Pirelli settlement | 11,000 | — |
| Other | 29,751 | 26,388 |

| | | |
|---|---|---|
| | $132,588 | $112,095 |

The following is a summary of the change in the company's accrued warranty during the six months ended April 30, 2003 (in thousands):

| | Accrued Warranty |
|---|---|
| Balance as of Oct. 31, 2002 | $42,040 |
| Provisions for warranty | 3,405 |
| Settlements made | (7,154) |
| Balance as of April 30, 2003 | $38,291 |

Deferred revenue (in thousands):

| | October 31, 2002 | April 30, 2003 |
|---|---|---|
| Products | $ 8,175 | $ 9,205 |
| Services | 22,657 | 23,480 |
| Total deferred revenue | 30,832 | 32,685 |
| Less current portion | (15,388) | (18,850) |
| Long-term deferred revenue | $ 15,444 | $ 13,835 |

**9) CONVERTIBLE NOTES PAYABLE**

On February 9, 2001, CIENA completed a public offering of 3.75% convertible notes, in an aggregate principal amount of $690 million, due February 1, 2008. Interest is payable on February 1 and August 1 of each year beginning August 1, 2001. 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 of notes, subject to adjustment in certain circumstances. On or after the third business day after February 1, 2004, 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 principle amount):

| Period | Redemption Price |
|---|---|
| Beginning on the third business day after February 1, 2004 and ending on January 31, 2005 | 102.143% |
| Beginning on February 1, 2005 and ending on January 31, 2006 | 101.607% |
| 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% |

On June 21, 2002, CIENA assumed the outstanding ONI 5.00% convertible subordinated notes, in an aggregate principal amount of $300 million, due October 15, 2005. Interest is payable on April 15 and October 15 of each year. The ONI convertible subordinated notes were initially recorded at a value of $218.0 million based upon the fair value of the outstanding notes at the time of the acquisition.

During the fourth quarter of fiscal 2002, CIENA purchased on the open market $97.1 million of the $300 million outstanding ONI convertible subordinated notes. The Company paid $75.2 million for notes with a cumulative accreted book value of $72.5 million, which resulted in a loss on early extinguishment of debt of $2.7 million.

During the first quarter of fiscal 2003, CIENA purchased $154.7 million of the remaining $202.9 million outstanding ONI convertible subordinated notes pursuant to a tender offer. The Company paid $139.2 million and accrued fees of $1.1 million related to the tender offer, for notes with a cumulative accreted book value of $119.7 million, which resulted in a loss on early extinguishment of debt of $20.6 million.

The remaining outstanding ONI convertible subordinated notes have a carrying value of $38.5 million and a face value of $48.3 million. CIENA is accreting the difference between the values over the remaining period to October 15, 2005, such that the carrying value of the outstanding notes equals the principal value at the time the notes become due. Accretion of the principal was $4.5 million for the first six months of fiscal 2003.

The remaining ONI convertible subordinated notes may be converted into shares of CIENA's common stock at any time before their maturity. The conversion rate is 7.7525 shares per each $1,000 principal amount of notes, subject to adjustment in certain circumstances. On or after October 16, 2003, 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 |
|---|---|
| October 16, 2003 | 102% |
| October 15, 2004 | 101% |

## 10) EARNINGS (LOSS) PER SHARE CALCULATION

The following is a reconciliation of the numerators and denominators of the basic net loss per common share ("basic EPS") and diluted net loss per common and dilutive potential common share ("diluted EPS"). Basic EPS is computed using the weighted average number of common shares outstanding. Diluted EPS is computed using the weighted average number of common shares outstanding, stock options and warrants using the treasury stock method (in thousands except per share amounts):

| | Quarter ended April 30, | |
|---|---|---|
| | 2002 | 2003 |
| Net loss | $(612,153) | $ (75,461) |
| Weighted average shares-basic | 328,764 | 433,932 |
| Effect of dilutive securities: | | |
| Weighted average shares-diluted | 328,764 | 433,932 |
| Basic EPS | $ (1.86) | $ (0.17) |
| Diluted EPS | $ (1.86) | $ (0.17) |

| | Six months ended April 30, | |
|---|---|---|
| | 2002 | 2003 |
| Net loss | $(682,744) | $(182,603) |
| Weighted average shares-basic | 328,312 | 433,330 |
| Effect of dilutive securities: | | |
| Weighted average shares-diluted | 328,312 | 433,330 |
| Basic EPS | $ (2.08) | $ (0.42) |
| Diluted EPS | $ (2.08) | $ (0.42) |

Stock options to purchase 46.8 million and 40.1 million shares of common stock were outstanding during the quarters ended April 30, 2002 and April 30, 2003, respectively, but were not included in the computation of diluted EPS as the effect would be anti-dilutive. In addition, stock options to purchase 45.6 million and 35.9 million shares of common stock were outstanding during the six months ended April 30, 2002 and April 30, 2003, respectively, but were not included in the computation of diluted EPS as the effect would be anti-dilutive.

## 11) COMPREHENSIVE INCOME

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

| | Quarter ended April 30, | | Six months ended April 30, | |
|---|---|---|---|---|
| | 2002 | 2003 | 2002 | 2003 |
| Net loss | $(612,153) | $(75,461) | $(682,744) | $(182,603) |
| Change in unrealized loss on available-for-sale securities, net of tax | (1,836) | (1,641) | (1,386) | (1,331) |
| Change in accumulated translation adjustments | 54 | 129 | 110 | 202 |

| | | | | |
|---|---|---|---|---|
| Total comprehensive loss | $(613,935) | $(76,973) | $(684,020) | $(183,732) |

**12) PRO FORMA STOCK-BASED COMPENSATION**

Had compensation cost for the Company's stock option plans and employee stock purchase plan been determined based on the fair value at the grant date for awards in the second quarter of fiscal 2002 and 2003 consistent with the provisions of SFAS 123 as amended by SFAS 148, the Company's net loss and net loss per share for the second quarter of fiscal 2002 and 2003 would have increased to the pro forma amounts indicated below (in thousands, except per share):

| | Quarter ended April 30, | | Six months ended April 30, | |
|---|---|---|---|---|
| | 2002 | 2003 | 2002 | 2003 |
| Net loss applicable to common stockholders — as reported | $(612,153) | $(75,461) | $(682,744) | $(182,603) |
| Compensation expense determined under the fair value method | (35,485) | (19,958) | (143,477) | (48,752) |
| Deferred compensation amortized | 4,492 | 4,428 | 9,626 | 9,359 |
| Net loss applicable to common stockholders — pro forma | $(643,146) | $(90,991) | $(816,595) | $(221,996) |
| Basic net loss per share — as reported | $ (1.86) | $ (0.17) | $ (2.08) | $ (0.42) |
| Basic net loss per share — pro forma | $ (1.96) | $ (0.21) | $ (2.49) | $ (0.51) |
| Diluted net loss per share — as reported | $ (1.86) | $ (0.17) | $ (2.08) | $ (0.42) |
| Diluted net loss per share — pro forma | $ (1.96) | $ (0.21) | $ (2.49) | $ (0.51) |

The above pro forma disclosures are not necessarily representative of the effects on reported net income or loss for future years.

The weighted average fair value of each option granted under the various stock option plans for the second quarter of fiscal 2002 and 2003 is $7.97 and $3.61 respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for fiscal years 2002 and 2003:

| | Employee Stock Option Plans | | | |
|---|---|---|---|---|
| | Quarter Ended | | Quarter Ended | |
| | January 31, 2002 | April 30, 2002 | January 31, 2003 | April 30, 2003 |
| Expected volatility | 92% | 92% | 92% | 84% |
| Risk-free interest rate | 2.6% | 2.6% | 2.6% | 2.6% |
| Expected life (years) | 4.5 | 4.5 | 4.5 | 4.5 |
| Expected dividend yield | 0.0% | 0.0% | 0.0% | 0.0% |

| | Employee Stock Purchase Plans | | | |
|---|---|---|---|---|
| | Quarter Ended | | Quarter Ended | |
| | January 31, 2002 | April 30, 2002 | January 31, 2003 | April 30, 2003 |
| Expected volatility | n/a | 92% | n/a | 84% |
| Risk-free interest rate | n/a | 1.3% | n/a | 1.3% |
| Expected life (years) | n/a | 0.5 | n/a | 0.5 |
| Expected dividend yield | n/a | 0.0% | n/a | 0.0% |

n/a = no Employee Stock Purchase occurred during the first quarter of fiscal 2002 and 2003

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions including the expected stock price volatility. The Company uses projected volatility rates, which are based upon historical volatility rates, trended into future years. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, existing models, including the Black-Scholes option-pricing model, do not necessarily provide a reliable single measure of the fair value of the Company's options.

**13) SEGMENT REPORTING**

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131 (SFAS No.131), "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 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. The Company is not organized by multiple operating segments for the purpose of making operating decisions or assessing performance. Accordingly, the Company operates in one operating segment and reports only certain enterprise-wide disclosures.

The Company's geographic distribution of revenue for the quarter and six months ended April 30, 2002 and 2003 are as follows (in thousands):

| | Quarter Ended April 30, | | | | Six Months Ended April 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2002 | % | 2003 | % | 2002 | % | 2003 | % |
| Domestic | $49,573 | 56.9 | $50,371 | 68.5 | $175,388 | 70.4 | $ 95,073 | 66.0 |
| International | 37,480 | 43.1 | 23,169 | 31.5 | 73,821 | 29.6 | 48,941 | 34.0 |
| Total | $87,053 | 100.0 | $73,540 | 100.0 | $249,209 | 100.0 | $144,014 | 100.0 |

The Company's revenue derived from products and services for the quarter and six months ended April 30, 2002 and 2003 are as follows (in thousands):

| | Quarter Ended April 30, | | | | Six Months Ended April 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2002 | % | 2003 | % | 2002 | % | 2003 | % |
| Products | $73,466 | 84.4 | $63,397 | 86.2 | $213,399 | 85.6 | $124,617 | 86.5 |
| Services | 13,587 | 15.6 | 10,143 | 13.8 | 35,810 | 14.4 | 19,397 | 13.5 |
| Total | $87,053 | 100.0 | $73,540 | 100.0 | $249,209 | 100.0 | $144,014 | 100.0 |

Historically, the Company has relied on a limited number of customers for its revenue. During the quarter and six months ended April 30, 2002 and 2003, customers who each accounted for at least 10% of the Company's revenue during the respective periods are as follows (in thousands):

| | Quarter Ended April 30, | | | | Six Months Ended April 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2002 | %** | 2003 | %** | 2002 | %** | 2003 | %** |
| Company A | $18,297 | 21.0 | $12,540 | 17.1 | $ 57,595 | 23.1 | $26,811 | 18.6 |
| Company B | 14,587 | 16.7 | * | — | * | — | * | — |
| Company C | 10,516 | 12.1 | * | — | 57,093 | 22.9 | * | — |
| Company D | 8,950 | 10.3 | 8,336 | 11.3 | * | — | * | — |
| Company E | * | — | 11,001 | 15.0 | * | — | 19,346 | 13.4 |
| Company F | * | — | * | — | * | — | 17,948 | 12.5 |
| Total | $52,350 | 60.1 | $31,877 | 43.4 | $114,688 | 46.0 | $64,105 | 44.5 |

*– denotes revenue recognized less than 10% of total revenue for the period.

**– denotes % of total revenue

**14) CONTINGENCIES**

*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 alleging that optical fiber amplifiers incorporated into CIENA's products infringe U.S. Patent No. 4,859,016. The complaint seeks injunctive relief, royalties and damages. CIENA was first served with this complaint on April 30, 2003. Although CIENA are currently engaged in discussions with the plaintiff regarding settlement of the matter, The Company believes that it has a valid defenses to the lawsuit and intend to defend it vigorously.

On July 19, 2000, CIENA and CIENA Properties, Inc., a wholly owned subsidiary of CIENA, filed a complaint in the United States District Court for the District of Delaware requesting damages and injunctive relief against Corvis Corporation ("Corvis"). The suit charged Corvis with infringing four patents relating to CIENA's optical networking communication systems and technology. A jury trial to determine whether Corvis is infringing these patents commenced on February 10, 2003. On February 24, 2003, the jury decided that Corvis was infringing one of the patents and not infringing two others. The jury was deadlocked with respect to infringement on the fourth patent. This trial was immediately followed by a trial on Corvis' affirmative defenses based on the validity of two of the patents. On February 28, 2003, the jury in this trial determined that the patents were valid. In April 2003, following a third trial, another jury decided that Corvis had infringed the fourth patent on which the previous jury had deadlocked. Based on these favorable verdicts collectively holding that Corvis is infringing two valid CIENA patents, CIENA plans to seek an injunction to prohibit the sale by Corvis of the infringing products.

As a result of the merger with ONI, 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 our 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 Mr. Davis have been dismissed from the action with out prejudice pursuant to a tolling agreement. In July 2002, ONI and other issuers in the consolidated cases filed motions to dismiss the amended complaint for failure to state a claim, which was denied as to ONI on February 19, 2003. CIENA intends to continue to defend these actions vigorously.

As a result of the merger with ONI, CIENA also became a defendant in two substantially identical purported class actions on behalf of ONI security holders originally brought against ONI and members of its board of directors. The complaints allege that the director defendants breached their fiduciary duties to ONI in approving the merger with CIENA and seek declaratory, injunctive and other relief permitted by equity. The plaintiffs failed to obtain an injunction against completion of the merger. The first of these cases was filed on February 20, 2002, in the Superior Court of the State of California, County of San Mateo, and is encaptioned K.W. Sams, On Behalf of Himself and All Others Similarly Situated v. ONI Systems Corporation, et al. The second case was brought on March 19, 2002, in the Superior Court of the State of California, County of Santa Clara, and is encaptioned Steven Myeary, On Behalf of Himself and All Others Similarly Situated v. ONI Systems Corporation. On April 14, 2003, the plaintiffs in these cases filed a consolidated amended complaint and named three additional defendants: CIENA Corporation, Kleiner Perkins Caufield & Byers and Mohr Davidow Ventures. CIENA believes that these lawsuits are without merit and will continue to defend them vigorously.

On May 3, 2002, a shareholder derivative complaint alleging violations of California state law was filed in the Superior Court of the State of California, County of Santa Clara against ONI. As a result of the merger with ONI CIENA has also become a defendant in the lawsuit. The complaint names Hugh Martin; the other members of the ONI's board of directors; Terrence J. Schmid, ONI's former chief financial officer and vice president, finance and administration; and certain underwriters of ONI's initial public offering as defendants. The complaint alleges that the defendants breached their fiduciary duties, acted negligently and were unjustly enriched in determining the offering price of ONI Systems common stock in ONI's initial public offering. No specific amount of damages has been claimed. The complaint is encaptioned Sabrina J. Kurzman and Michael J. Kurzman, Derivatively on Behalf of ONI Systems Corp. v. Hugh C. Martin. In September 2002, CIENA filed a motion to dismiss the complaint. The Company's motion to dismiss was granted by the court on November 6, 2002. On December 2, 2002, the plaintiffs filed a notice of appeal from the court's order.

**15) BUSINESS COMBINATIONS**

On April 9, 2003, CIENA announced that it had entered into an agreement to acquire by merger Wavesmith Networks Inc. a privately held corporation headquartered in Acton, Massachusetts. Wavesmith is a leading innovator of multiservice switching. Under the terms of the acquisition agreement, WaveSmith will merge into CIENA, and all remaining outstanding shares of WaveSmith common and preferred stock will be exchanged for approximately 36 million shares of CIENA common stock. This includes shares for the assumption of WaveSmith's employee stock options, which will be converted into options to purchase CIENA shares. The aggregate value of the shares to be issued by CIENA at the time of the announcement of the merger was approximately $158 million, excluding the value of CIENA common stock issuable to CIENA as a result of a previous investment by CIENA in WaveSmith. The WaveSmith acquisition is subject to approval by the stockholders of WaveSmith, and a shareholder meeting has been set for June 11, 2003. If the WaveSmith shareholders give their approval, we expect to complete the transactions within a few days of the meeting.

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Under the heading "Risk Factors", we have described what we believe to be some of the major risks related to these forward-looking statements, as well as the general outlook for our business. Investors 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 December 12, 2002, for a more complete understanding of the risks associated with an investment CIENA's common stock.

**Overview**

CIENA, a leader in intelligent optical networking systems and software, offers telecommunications network solutions to service providers and enterprises worldwide. Our customers include long-distance carriers, local exchange carriers, Internet service providers, wireless and wholesale carriers, systems integrators, governments, and large businesses and non-profit institutions. CIENA offers network solutions that enable service providers to provision, manage and deliver economic, high-bandwidth services to their customers.

In early 2001, the telecommunications industry began a severe decline, which has affected almost all of its segments, including equipment suppliers like CIENA. This decline has continued and has caused the market for our equipment to shrink substantially, with a resulting adverse impact on our revenue and profitability. In response, we have embarked upon a corporate strategy that is, among other things, designed to increase our addressable market by increasing our product offerings. We plan to add new products, through internal development, acquisitions and strategic alliances, that can be used to offer data communications services as well as products designed to be deployed at the edge of a carrier's network, where we expect a large portion of carrier spending to occur over the next few years.

In April 2003, as part of our efforts to implement this strategy, we entered into an agreement to acquire by merger WaveSmith Networks, Inc., a privately held corporation headquartered in Acton, Massachusetts. This acquisition will enable us to add WaveSmith's multiservice data switching product to our portfolio. This product, which is designed to be deployed at the edge of carrier networks, is based on the widely-deployed ATM (Asynchronous Transfer Mode) and frame relay standards and also provides an easy migration path to next-generation technologies.

Under the terms of the acquisition agreement, WaveSmith will merge into CIENA, and all remaining outstanding shares of WaveSmith common and preferred stock will be exchanged for approximately 36 million shares of CIENA common stock. This includes shares for the assumption of WaveSmith's employee stock options, which will be converted into options to purchase CIENA shares. The aggregate value of the shares to be issued by CIENA at the time of the announcement of the merger was approximately $158 million, excluding the value of CIENA common stock issuable to CIENA as a result of a previous investment by CIENA in WaveSmith. The WaveSmith acquisition is subject to approval by the stockholders of WaveSmith, and a shareholder meeting has been set for June 11, 2003. If the WaveSmith shareholders give their approval, we expect to complete the transaction within a few days of the meeting.

As of April 30, 2003, CIENA and its subsidiaries employed 2,005 persons, which was a net reduction of 113 persons from the 2,118 employed on October 31, 2002.

**Critical Accounting Policies and Estimates**

The preparation of consolidated financial statements requires CIENA to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, CIENA re-evaluates its estimates, including those related to bad debts, inventories, investments, intangible assets, goodwill, income taxes, warranty obligations, restructuring, 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. CIENA believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

*Revenue Recognition*

CIENA recognizes product revenue in accordance with the shipping terms specified and where collection is reasonably assured. For transactions where CIENA has yet to obtain customer acceptance, revenue is deferred until the terms of acceptance are satisfied. Revenue for installation services is recognized as the services are performed unless the terms of the supply contract combine product acceptance with installation,. Revenue from installation services are recognized when the terms of acceptance are satisfied and installation is completed. Revenue from installation service fixed-price contracts are recognized on the percentage-of-completion method, measured by the percentage of costs incurred to date compared to estimated total costs for each contract. Amounts received in excess of revenue recognized are included as deferred revenue in the accompanying balance sheet. For transactions involving the sale of software, revenue is recognized in accordance with Statement of Position No. 97-2 ("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 distributor sales where risks of ownership have not transferred, CIENA recognizes revenue when the product is shipped through to the end user.

*Allowances for Doubtful Accounts*

CIENA maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of CIENA's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As of April 30, 2003, our accounts receivable balance, net of allowances for doubtful accounts of $9.7 million, was $32.4 million, which included three customers that accounted for 20.9%, 17.4%, and 12.3% of the net trade accounts receivable.

*Warranties*

CIENA provides for the estimated cost of product warranties at the time revenue is recognized. CIENA engages in extensive product quality programs and processes including actively monitoring and evaluating the quality of its component suppliers and third party contractors. CIENA's warranty obligation is affected by product failure rates and material usage and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage or service delivery costs differ from CIENA's estimates, revisions to the estimated warranty liability would be required.

*Reserve for Inventory Obsolescence*

CIENA writes down its inventory for estimated obsolescence or unmarketable inventory 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 six months ended April 30, 2003, CIENA recorded a benefit for inventory reserves of $4.1 million primarily related to the realization of sales from previously reserved excess inventory. If actual market conditions differ from those CIENA has projected, CIENA may be required to take additional inventory write-downs or to record additional 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 utilized. The provision is equal to the future minimum lease payments under contractual obligations offset by estimated future sublease payments. As of the end of the first six months of fiscal 2003, CIENA's accrued restructuring liability related to net lease expense and other related charges was $68.6 million. If actual market conditions are less favorable than those CIENA has projected, CIENA may be required to recognize additional restructuring costs associated with these facilities.

*Minority Investments*

CIENA holds minority interests in several companies having operations or technology in areas within its strategic focus. As of April 30, 2003, $16.0 million of these investments are included in other long-term assets. CIENA records an investment impairment charge when it believes an investment has experienced a decline in value that is other than temporary. During the six months ended April 30, 2003, no material impairment charges were recorded. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future.

*Impairment of Goodwill*

Effective November 1, 2001, CIENA adopted Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") and ceased to amortize goodwill. As of April 30, 2003, CIENA's assets include $212.5 million related to goodwill. SFAS 142 requires that we cease to amortize goodwill and to test it 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 CIENA below its earnings amount. Since no event occurred or circumstances changed during the first six months of fiscal 2003 that would, more likely than not, reduce the fair value of CIENA below its earnings amount, no impairment was recorded in the first six months of fiscal 2003. If actual market conditions are less favorable than those we have projected or if an event occurs or circumstances change that would, more likely than not, reduce the fair value of CIENA below its earnings amount, we may be required to recognize additional goodwill impairment charges.

*Deferred Tax Valuation Allowance*

As of April 30, 2003, CIENA has recorded a valuation allowance of $804.0 million against our gross deferred tax assets of $804.0 million. We calculated the valuation allowance in accordance with the provisions of Statement of Financial Accounting Standard No. 109, “Accounting for Income Taxes” (“SFAS 109”) which requires an assessment of both positive and negative evidence when measuring the need for a valuation allowance. Positive evidence, such as operating results during the most recent three-year period, is given more weight when due to our current lack of visibility, there is a greater degree of uncertainty that the level of future profitability needed to record the deferred assets will be achieved. Our results over the most recent three-year period were heavily affected by our recent deliberate and planned business restructuring activities. 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.

*Accounting for Stock Options*

In October 1995, the Financial Accounting Standards Board issued SFAS 123, “Accounting for Stock-Based Compensation”. SFAS 123 allows companies to account for stock-based compensation either under the new provisions of SFAS 123 or using the intrinsic value method provided by Accounting Principles Board Opinion No. 25 (“APB 25”), “Accounting for Stock Issued to Employees”, but requires pro forma disclosure in the footnotes to the financial statements as if the measurement provisions of SFAS 123 had been adopted.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 148, “Accounting for Stock-Based Compensation-Transition and Disclosure” (“SFAS 148”). SFAS 148 amends SFAS 123, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS 148 is effective for financial statements for fiscal years ending after December 15, 2002.

We have elected to continue to account for stock-based compensation in accordance with the provisions of APB 25 as interpreted by FASB Interpretation No. 44, “Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25”, (“FIN 44”) and present the pro forma disclosures required by SFAS 123 as amended by SFAS 148.

**Results of Operations**

**Quarter Ended April 30, 2002 Compared to Quarter Ended April 30, 2003**

***Revenue.*** We recognized revenue of $87.1 million and $73.5 million for the quarters ended April 30, 2002 and 2003, respectively. The decrease of $13.5 million or 15.5% was due primarily to the continued decline in demand for optical networking products worldwide. This decrease in revenue occurred even though we had sales to 65 customers in the second quarter of fiscal 2003, as compared to 38 customers in the second quarter of fiscal 2002. CIENA’s geographic distribution of revenue for the second quarter of fiscal 2002 and 2003 were as follows (in thousands):

| | Quarter Ended April 30, | | | |
|---|---|---|---|---|
| | 2002 | % | 2003 | % |
| Domestic | $49,573 | 56.9 | $50,371 | 68.5 |
| International | 37,480 | 43.1 | 23,169 | 31.5 |
| Total | $87,053 | 100.0 | $73,540 | 100.0 |

During the second quarter of fiscal 2003, we derived the majority of our revenue from sales of intelligent core switching products, short-distance optical transport equipment and metro switching products. During the second quarter of fiscal 2002, we derived the majority of our revenue from sales of intelligent core switching products, metro switching products and long-distance optical transport products. CIENA's revenue from products and services for the second quarter of fiscal 2002 and 2003 were as follows (in thousands):

| | Quarter Ended April 30, | | | |
|---|---|---|---|---|
| | 2002 | % | 2003 | % |
| Products | $73,466 | 84.4 | $63,397 | 86.2 |
| Services | 13,587 | 15.6 | 10,143 | 13.8 |
| Total | $87,053 | 100.0 | $73,540 | 100.0 |

Historically, we have relied on a limited number of customers for a substantial portion of our revenue. During the second quarter of fiscal 2002 and 2003, certain customers each accounted for at least 10% of our revenue during the respective periods as follows (in thousands):

| | Quarter Ended April 30, | | | |
|---|---|---|---|---|
| | 2002 | %** | 2003 | %** |
| A | $18,297 | 21.0 | $12,540 | 17.1 |
| B | 14,587 | 16.7 | * | — |
| C | 10,516 | 12.1 | * | — |
| D | 8,950 | 10.3 | 8,336 | 11.3 |
| E | * | — | 11,001 | 15.0 |
| Total | $52,350 | 60.1 | $31,877 | 43.4 |

* - Accounted for less than 10% of the total revenue for the period.

** - Denotes % of total revenue

***Gross Profit (Loss).*** Gross profit (loss) was ($223.7) million and $18.2 million for the quarters ended April 30, 2002 and 2003, respectively. Gross loss for the second quarter of fiscal 2002 included a provision for inventory obsolescence, including purchase commitments, of approximately $223.3 million. During the second quarter of fiscal 2003, we recorded a benefit for inventory reserves of $1.4 million primarily related to the realization of sales from previously reserved excess inventory. The $242.0 million increase in gross profit in the second quarter of fiscal 2003 compared to the second quarter of fiscal 2002 was primarily the result of the change in provision for inventory obsolescence.

Gross margin was (257.0%) and 24.8% of revenue for the second quarter of fiscal 2002 and 2003, respectively. The increase was largely attributable to decreases in inventory obsolescence costs, increases in manufacturing efficiencies, and improvements in margin from installation and technical support services.

***Research and Development Expenses.*** Research and development expenses (exclusive of stock compensation costs of $3.5 and $3.4 million) were $59.6 million and $52.2 million for the quarters ended April 30, 2002 and 2003, respectively. During the second quarter of fiscal 2002 and 2003, research and development expenses were 68.4% and 71.0% of revenue, respectively. The $7.4 million or 12.4% decrease in research and development expenses in the second quarter of fiscal 2003 compared to the second quarter of fiscal 2002 was the result of decreased consulting expenses, reduced spending on prototype parts and decreased depreciation expense. CIENA expenses research and development costs as incurred.

***Selling and Marketing Expenses.*** Selling and marketing expenses (exclusive of stock compensation costs of $0.9 and $0.7 million) were $29.8 million and $25.7 million for the quarters ended April 30, 2002 and 2003, respectively. During the second quarter of fiscal 2002 and 2003, selling and marketing expenses were 34.3% and 34.9% of revenue, respectively. The $4.2 million or 14.0% decrease in selling and marketing expenses in the second quarter of fiscal 2003 compared to the second quarter of fiscal 2002 was primarily the result of decreased facility related expenses, decreased costs associated with trade-show participation and travel expenses.

***General and Administrative Expenses.*** General and administrative expenses (exclusive of stock compensation costs of $0.2 and $0.3 million) were $13.3 million and $8.1 million for the quarters ended April 30, 2002 and 2003, respectively. During the second quarter of fiscal 2002 and 2003, general and administrative expenses were 15.3% and 11.0% of revenue, respectively. The $5.2 million or 39.2% decrease in general and administrative expenses from the second quarter of fiscal 2002 compared to the second quarter of fiscal 2003 was primarily the result of reductions in consulting expenses, employee related costs and travel expenses.

***Deferred Stock Compensation Costs.*** Deferred stock compensation costs were $4.5 and $4.4 million for the quarters ended April 30, 2002 and 2003 respectively. As part of our June 2002 acquisition of ONI Systems Corp., we recorded additional deferred stock compensation of $8.8 million related to the unvested stock options and restricted stock assumed in the acquisition. As part of our March 2001 acquisition of Cyras Systems, Inc., we recorded $98.5 million of deferred stock compensation related to the unvested stock options and restricted stock assumed in the acquisition. Deferred stock compensation is presented as a reduction of stockholders' equity and is a non-cash expense amortized over the remaining vesting period of the applicable options. As of April 30, 2003, the balance of deferred stock compensation presented as a reduction of stockholder's equity was $12.2 million.

***Amortization of Intangible Assets.*** Amortization of intangible assets was $1.8 million and $3.4 million for the quarters ended April 30, 2002 and 2003, respectively. As part of our acquisition of Cyras, we recorded $47.7 million worth of other intangible assets. The intangible asset from the Cyras purchase is being amortized over a seven-year period. As part of our June 2002 acquisition of ONI, we recorded $15.1 million of other intangible assets. Amortization of these intangible assets from ONI ranged from two months to seven years.

***Restructuring Costs.*** During the second quarter of fiscal 2002, we recorded a restructuring charge of $121.4 million associated with workforce reductions, lease terminations, non-cancelable lease costs and the write-down of certain property, equipment and leasehold improvements. During the second quarter of fiscal 2003, we recorded a restructuring charge of $4.3 million associated with a workforce reduction, offset by a credit of $1.6 million related to the adjustment of previously estimated restructuring charges.

***Provision for Doubtful Accounts.*** We recorded a provision for doubtful accounts of approximately $16.1 million in the second quarter of fiscal 2002. This provision relates to the estimated losses from two customers whose financial conditions suggested that they would not be able to make required payments to CIENA. No provision was recorded in the second quarter of fiscal 2003.

***Interest and Other Income (Expense), Net.*** Interest and other income (expense), net were $15.0 million and $11.1 million for the quarters ended April 30, 2002 and 2003, respectively. The $3.9 million decrease was attributable to the impact of lower average interest rates and lower cash and invested balances offset by the receipt of $1.2 million of other income.

***Interest Expense.*** Interest expense was $8.6 million and $8.1 million for the quarters ended April 30, 2002 and 2003, respectively. The $0.6 million or 6.7% decrease was attributable to the decrease in our debt obligations.

***Loss on Equity Investments, Net***. Loss on equity investments, net was $0.4 million for the second quarter of fiscal 2002. This realized loss of $0.4 million was from a decline in the fair value of a public equity investment that was determined to be other than temporary.

***Provision for Income Taxes.*** Our provision for income taxes was $148.0 million for the quarter ended April 30, 2002. This was inclusive of an income tax benefit of $157.8 million or 34.0% on net loss for the quarter, offset by a $305.8 million non-cash charge to establish a valuation allowance against our gross deferred tax assets. CIENA's provision for income taxes was $0.3 million for the quarter ended April 30, 2003. The provision was primarily attributable to foreign taxes related to CIENA's foreign operations. We did not record a tax benefit for CIENA's domestic losses during the quarter ended April 30, 2003. We intend to maintain a valuation allowance against certain deferred tax assets until sufficient positive evidence exists to support its reversal.

***Net Loss.*** Our net loss for the quarters ended April 30, 2002 and 2003 was $612.2 million and $75.5 million, respectively.

**Six Months Ended April 30, 2002 Compared to Six Months Ended April 30, 2003**

***Revenue.*** We recognized revenue of $249.2 million and $144.0 million for the six months ended April 30, 2002 and 2003, respectively. The decrease of $105.2 million, or 42.2%, was due primarily to the reduction in demand for optical networking products worldwide. This decrease in revenue occurred even though we had sales to 78 customers in the first six months of fiscal 2003 as compared to 48 customers in the first six months of fiscal 2002. CIENA's geographic distribution of revenue for the first six months fiscal 2002 and 2003 are as follows (in thousands):

| | Six months ended April 30, | | | |
|---|---|---|---|---|
| | 2002 | % | 2003 | % |
| Domestic | $175,388 | 70.4 | $ 95,073 | 66.0 |
| International | 73,821 | 29.6 | 48,941 | 34.0 |
| Total | $249,209 | 100.0 | $144,014 | 100.0 |

During the first six months of fiscal 2003, we derived the majority of our revenue from sales of intelligent core switching products, short-distance optical transport equipment and metro switching products. Revenue during the first six months of fiscal 2002 was primarily from sales of intelligent core switching products, metro switching products and long-distance optical transport products. CIENA's revenue derived from products and services for the first six months of fiscal 2002 and 2003 are as follows (in thousands):

| | Six months ended April 30, | | | |
|---|---|---|---|---|
| | 2002 | % | 2003 | % |
| Products | $213,399 | 85.6 | $124,617 | 86.5 |
| Services | 35,810 | 14.4 | 19,397 | 13.5 |
| Total | $249,209 | 100.0 | $144,014 | 100.0 |

Historically, we have relied on a limited number of customers for a substantial portion of our revenue. During the first six months of fiscal 2002 and 2003, certain customers each accounted for at least 10% of our revenue during the respective periods as follows (in thousands):

| | Six months ended April 30, | | | |
|---|---|---|---|---|
| | 2002 | %** | 2003 | %** |
| A | $ 57,595 | 23.1 | $26,811 | 18.6 |
| B | * | — | 19,346 | 13.4 |
| C | 57,093 | 22.9 | * | — |
| D | * | — | 17,948 | 12.5 |
| Total | $114,688 | 46.0 | $64,105 | 44.5 |

* Accounted for less than 10% of total revenue for the period.

** - Denotes % of total revenue

***Gross Profit (Loss).*** Gross profit (loss) was ($201.3) million and $34.5 million for the six months ended April 30, 2002 and 2003, respectively. Gross loss for the first six months of fiscal 2002 included a provision for inventory obsolescence, including purchase commitments, of approximately $243.7 million. During the first six months of fiscal 2003, we recorded a benefit for inventory reserves of $4.1 million primarily related to the realization of sales from previously reserved excess inventory. The $235.8 million increase in gross profit in the first six months of fiscal 2002 compared to the first six months of fiscal 2003 was primarily the result of the reduction in charges related to excess and obsolete inventory.

Gross margin was (80.8%) and 23.9% of revenue for the first six months of fiscal 2002 and 2003, respectively. The increase was largely attributable to decreases in inventory obsolescence costs, increases in manufacturing efficiencies, and improvements in margin from installation and technical support services.

***Research and Development Expenses.*** Research and development expenses (exclusive of stock compensation costs of $7.4 and $7.2 million) were $124.3 million and $105.9 million for the six months ended April 30, 2002 and 2003, respectively. During the first six months of fiscal 2002 and 2003, research and development expenses were 49.9% and 73.6% of revenue, respectively. The $18.4 million or 14.8% decrease in research and development expenses in the first six months of fiscal 2003 compared to the first six months of fiscal 2002 was the result of decreased prototype costs, consulting expenses, employee costs and depreciation expense. CIENA expenses research and development costs as incurred.

***Selling and Marketing Expenses.*** Selling and marketing expenses (exclusive of stock compensation costs of $1.8 and $1.4 million) were $67.4 million and $52.3 million for the six months ended April 30, 2002 and 2003, respectively. During the first six months of fiscal 2002 and 2003, selling and marketing expenses were 27.1% and 36.3% of revenue, respectively. The $15.2 million or 22.5% decrease in selling and marketing expenses in the first six months of fiscal 2003 compared to the first six months of fiscal 2002 was primarily the result of the reduced levels of employee related costs, decreased costs associated with tradeshow participation and overhead costs.

***General and Administrative Expenses.*** General and administrative expenses (exclusive of stock compensation costs of $0.4 and $0.7 million) were $26.9 million and $20.3 million for the six months ended April 30, 2002 and 2003, respectively. During the first six months of fiscal 2002 and 2003, general and administrative expenses were 10.8% and 14.1% of revenue, respectively. The $6.7 million or 24.7% decrease in general and administrative expenses in the first six months of fiscal 2003 compared to the first six months of fiscal 2002 was primarily the result of decreases in overhead costs, consulting expenses and employee related costs.

***Deferred Stock Compensation Costs.*** Deferred stock compensation costs were $9.6 million and $9.4 million for the six months ended April 30, 2002 and 2003, respectively. As part of our June 2002 acquisition of ONI, we recorded additional deferred stock compensation of $8.8 million related to the unvested stock options and restricted stock assumed in the acquisition. As part of our March 2001 acquisition of Cyras, we recorded $98.5 million of deferred stock compensation related to the unvested stock options and restricted stock assumed in the acquisition. Deferred stock compensation is presented as a reduction of stockholders' equity and is a non-cash expense amortized over the remaining vesting period of the applicable options. As of April 30, 2003, the balance of deferred stock compensation presented as a reduction of stockholder's equity was $12.2 million.

***Amortization of Intangible Assets.*** Amortization of intangible assets was $3.6 million and $7.0 million for the six months ended April 30, 2002 and 2003, respectively. The $3.3 million or 92.3% increase in amortization from the first six months of fiscal 2002 to 2003 is related to an increase in our intangible assets acquired from our June 2002 acquisition of ONI, for which we recorded $15.1 million of other intangible assets. Amortization of these intangible assets from ONI ranged from two months to seven years.

***Nortel Networks Settlement Costs***. Upon acquiring ONI, CIENA became the defendant in a lawsuit originally brought on March 10, 2000, against ONI by Nortel Networks in the United States District Court for the Northern District of California. In addition, on November 27, 2002, Nortel Networks filed another complaint in the United States District Court for the Eastern District of Texas. In January 2003, we reached an agreement with Nortel Networks to resolve both lawsuits. Under the settlement agreement, we made a one-time payment of $25 million to Nortel Networks, and Nortel Networks granted CIENA a license under the patents in suit and certain related patents. Both lawsuits have been dismissed, and Nortel Networks and CIENA have agreed not to sue each other for patent infringement for two years, during which time they will seek to negotiate a cross-license arrangement between them. CIENA accounted for the $25.0 million liability by recording an expense of $2.5 million in first quarter 2003 related to the settlement of the litigation, and recording the remaining $22.5 million as an intangible asset that will be amortized over eight years based upon the expected life of the patent rights acquired in the settlement.

***Restructuring Costs.*** During the six months ended April 30, 2002, we recorded a restructuring charge of $128.2 million associated with workforce reductions, lease terminations, non-cancelable lease costs and the write-down of certain property, equipment and leasehold improvements associated its restructuring activities. During the six months ended April 30, 2003, we recorded a restructuring charge of $4.3 associated with a workforce reduction of approximately 75 employees offset by a credit of $1.6 million related to the adjustment of previously estimated restructuring charges.

***Provision for Doubtful Accounts.*** We recorded a provision for doubtful accounts of $16.1 million in the six months ended April 30, 2002. This provision relates to the estimated losses from two customers whose financial condition suggested that they would not be able to make required payments to CIENA. No provision was recorded in the first six months of fiscal 2003.

***Interest and Other Income (Expense), Net.*** Interest income and other income (expense), net was $31.2 million and $24.4 million for the six months ended April 30, 2002 and 2003, respectively. The $6.8 million decrease in interest and other income in the first six months of fiscal 2003 compared to the first six months of fiscal 2002, was attributable to the impact of lower average interest rates and lower cash and invested balances offset by the receipt of $1.4 million of other income.

***Interest Expense.*** Interest expense was $19.1 million and $20.3 million for the six months ended April 30, 2002 and 2003, respectively. The $1.1 million or 5.9% increase was attributable to the increase in our debt obligations as a result of the ONI acquisition.

***Loss on Equity Investments, Net***. Loss on equity investments, net was $5.7 million and $0.0 million for the six months ended April 30, 2002 and 2003 respectively. During the first six months ended April 30, 2002, CIENA realized a loss of $1.9 million from the sale of a public equity investment and a loss of $6.6 million from a decline in the fair value of a public equity investment that was determined to be other than temporary. This loss was offset when CIENA sold 80.1% of its ownership in ATI International Investments, Inc., the parent company of ATI Telecom International Ltd. ("Alta"), which resulted in a gain of $2.8 million. CIENA retains a 19.9% ownership in ATI International Investments, Inc. There have been no significant losses or equity investments for the six months ended April 30, 2003.

***Loss on Extinguishment of Debt***. In the first six months of fiscal 2003, CIENA conducted a tender offer to purchase the remaining outstanding $202.9 million of the ONI 5.00% convertible subordinated notes which resulted in its purchase of $154.7 million of those notes. CIENA paid $139.2 million and accrued fees of $1.1 million related to the tender offer, for notes with a cumulative accreted book value of $119.7 million, which resulted in a loss on early extinguishment of debt of $20.6 million.

***Provision for Income Taxes.*** CIENA's provision for income taxes was $111.6 million for the six months ended April 30, 2002. This was inclusive of an income tax benefit of $194.2 million or 34.0% of the net loss for the quarter, offset by a $305.8 million non-cash charge to establish a valuation allowance against our gross deferred tax assets. CIENA's provision for income taxes was $0.6 million for the first six months of fiscal 2003. This provision was primarily attributable to foreign taxes related to CIENA's foreign operations. We did not record a tax benefit for CIENA's domestic losses during the first six months fiscal of 2003. CIENA intends to maintain a valuation allowance against certain deferred tax assets until sufficient positive evidence exists to support its reversal.

***Net Loss.*** Our net loss for the six months ended April 30, 2002 and 2003 was $682.7 million and $182.6 million, respectively.

**Liquidity and Capital Resources**

At April 30, 2003, CIENA's principal source of liquidity was its cash and cash equivalents of $509.4 million, short-term investments of $730.0 million and long-term investments of $578.2 million.

Cash provided by operations was $148.5 million for the first six months ended April 30, 2002. This was comprised of a large net loss offset by the provision for inventory obsolescence, collection of accounts receivable, the change in the deferred income tax asset and the charge due to the non-cash portion of restructuring charges and related asset write-downs.

Cash used in operations was $113.4 million for the six months ended April 30, 2003. This was comprised of the net loss, and the reduction in accounts payable offset by the early extinguishment of debt, the non-cash portion of restructuring charges and related asset write-downs, depreciation and amortization expense, amortization of intangibles and the reduction of inventory.

During the six months ended April 30, 2002, cash provided by investing activities was $136.4 million. Investment activities included the net maturities of $187.7 million worth of short and long-term investments and purchases of $46.4 million of capital expenditures. The capital expenditures were primarily for test, manufacturing and computer equipment.

During the six months ended April 30, 2003, cash provided by investing activities was $378.8 million. Investment activities included the net maturities of $393.0 million worth of short and long-term investments and purchases of $14.2 million of capital expenditures. The capital expenditures were primarily for test equipment, sales and marketing demonstration equipment, leasehold improvements and computer equipment.

Cash used in financing activities for the six months ended April 30, 2002 was $168.0 million. On April 30, 2002 we redeemed all the outstanding Cyras Systems LLC 4.5% convertible subordinated notes at a total redemption price of $178.4 million. This is offset by the receipt of $10.2 million from the exercise of stock options.

Cash used in financing activities for the six months ended April 30, 2003 was $133.2 million. The primary use of cash used in finance activities was related to the purchase of $154.7 million of the remaining $202.9 million outstanding ONI convertible subordinated notes. We paid $139.2 million for the notes and fees of $1.1 million related to the purchase. Also, during the six months ended April 30, 2003, we received $5.3 million from the exercise of stock options and $1.6 million from the repayment of notes receivable from stockholders.

The following is a summary of our future minimum payments under contractual obligations as of April 30, 2003 (in thousands):

| | Payment Due by Period | | | | |
|---|---|---|---|---|---|
| | Total | Less than one year | One to three years | Three to five years | More than five |
| Convertible notes (1) | $ 873,687 | $28,289 | $103,648 | $741,750 | $ — |
| Operating leases | 267,389 | 36,690 | 73,572 | 59,936 | 97,191 |
| Purchase obligations(2) | 41,484 | 34,484 | 7,000 | — | — |
| Total | $1,182,560 | $99,463 | $184,220 | $801,686 | $97,191 |

Notes to above tables:

(1) The terms of our convertible notes with a principal value of $690.0 million include interest at 3.75% payable on a semi-annual basis on February 1 and August 1 of each year; the notes are due February 1, 2008. The terms of the ONI convertible subordinated notes with a principal value of $48.3 million include interest at 5.00% payable on a semi-annual basis on April 15 and October 15 of each year; the notes are due October 15, 2005

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

The following is a summary of our other commercial commitments by commitment expiration date as of April 30, 2003 (in thousands):

| | Total | Less than one year | One to three years | Three to five years | More than five years |
|---|---|---|---|---|---|
| Standby letters of credit | $10,521 | $9,911 | $360 | $250 | $— |

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, investment requirements, commitments, and other liquidity requirements associated with our existing operations through at least the next 12 months.

**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 and structured finance entities.

**Risk Factors**

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

**Our business could continue to be adversely affected by unfavorable and uncertain conditions in the communications industry and the economy in general**

Over the last two years, there has been a sharp contraction of the availability of capital to finance communications networks, and many of our customers and potential customers have experienced significant financial distress. This industry trend has been compounded by the slowing not only of the United States economy but the economies in virtually all of the countries in which we are marketing our products. These developments have caused a substantial reduction in demand for our products which has adversely affected our revenue and operating results. In addition, most of our customers have become more conservative and uncertain about their future purchases which has made managing our business difficult.

We expect the factors described above to continue to affect our business for an indeterminate period, in several significant ways:

- our markets will be characterized by flat or reduced capital expenditures by our customers;
- we will continue to have only limited ability to forecast the volume and product mix of our sales;
- managing our expenditures will be difficult in light of the uncertainties surrounding our business;
- increased competition resulting from reduced demand will put substantial downward pressures on the pricing of our products, tending to reduce our profit margins;
- increased competition will enable customers to insist on more favorable terms and conditions for sales, including extended payment terms or other financing assistance, as a condition of procuring their business; and
- the bankruptcies or weakened financial condition of some of our customers may require us to write off amounts due to us from prior sales.

The result of any one or a combination of these factors could lead to further reduced revenue and increased operating losses.

**We face intense competition that could hurt our sales and profitability**

The market for optical networking equipment is extremely competitive. Competition in the optical networking market is based on varying combinations of price, functionality, software functionality, manufacturing capability, installation, services, scalability and the ability of the system solutions to meet customers' immediate and future network requirements. A small number of very large companies, including Alcatel Alsthom Group ("Alcatel"), Cisco Systems, Telefon AB LM Ericsson, Fujitsu Group, Hitachi Ltd., Huawei Technologies Co., Ltd., Lucent Technologies Inc., Marconi Corporation, NEC Corporation ("NEC"), Nortel Networks, Siemens AG ("Siemens") and Tellabs, Inc., have historically dominated the telecommunications equipment industry. They all have greater financial, marketing, manufacturing and intellectual property resources than CIENA. They also often have existing relationships with our potential customers.

Because we sell systems that compete directly with product offerings of these companies, and in some cases displace or replace their equipment, we represent a competitive threat. The decline in the market for optical networking equipment has resulted in even greater competitive pressures. We expect that the aggressive tactics we have confronted on the part of many of these competitors will continue, and perhaps become more severe. These tactics include:

- intense price competition in sales of new equipment, resulting in lower profit margins;
- discounting resulting from sales of used equipment or inventory that a competitor has written down or written off;
- early announcements of competing products and other marketing efforts;
- “one-stop shopping” options;
- customer financing assistance;
- marketing and advertising assistance; and
- intellectual property disputes.

In addition, several of our largest competitors are experiencing financial difficulties. In competition with these vendors for the business of customers to which the competitor has been historically a major supplier, we have confronted situations in which the competitor contends that unless the customer awards it the business, the competitor may fail, leaving the customer without support for the competitor’s equipment already in the network. To the extent that such arguments are successful, we may be at a disadvantage in winning new business.

Tactics such as those described above can be particularly effective in a concentrated customer base like ours. Our customers are under increasing competitive pressure to deliver their services at the lowest possible cost. This pressure may result in the pricing of optical networking systems becoming a more important factor in customer decisions. This may favor larger competitors that can spread the effect of price discounts in their optical networking products across a larger array of products and services and across a larger customer base than ours. If we are unable to offset any reductions in the average sales price for our products by a reduction in the cost of our products, our gross profit margins will be adversely affected. Our inability to compete successfully against our competitors and maintain our gross profit margins would harm our business, financial condition and results of operations.

Many of our customers have indicated that they intend to establish a relationship with at least two vendors for optical networking products. With respect to customers for whom we are the only supplier of intelligent optical products, we do not know when or if these customers will select a second vendor or what impact the selection might have on purchases from us. If a second optical networking supplier is chosen, these customers could reduce their purchases from us, which could in turn have a material adverse effect on us.

New competitors continue to emerge to compete with our products. They often base their products on the latest available technology. They may achieve commercial availability of their products more quickly due to the narrower focus of their efforts. Our inability to compete successfully against these companies would harm our business, financial condition and results of operations.

**Product performance problems could limit our sales prospects**

The development and production of new products with high technology content, including optical networking products, often involves problems with software, components and manufacturing methods. If significant reliability, quality or network monitoring problems develop, including those due to defects in software or faulty components, a number of negative effects on our business could result, including:

- costs associated with fixing software defects or reworking our manufacturing processes;

- high service and warranty expenses;
- payment of liquidated damages for performance failures;
- high inventory obsolescence expense;
- high levels of product returns;
- delays in collecting accounts receivable;
- reduced orders from existing customers; and
- declining interest from potential customers.

Although we maintain accruals for product warranties, actual costs could exceed these amounts. From time to time, there will be interruptions or delays in the activation of our products at a customer’s site. These interruptions or delays may result from product performance problems or from aspects of the installation and activation activities, some of which are outside our control. If we experience significant interruptions or delays that we cannot promptly resolve, confidence in our products could be undermined, which could cause us to lose customers or otherwise harm our business.

**Economic conditions may require us to reduce the size of our business further**

In November 2001, February 2002, March 2002, June 2002 (in connection with the ONI merger), September 2002 and again in April 2003, we undertook reductions in force, some of which were accompanied by dispositions of assets, as part of our effort to reduce the size of our operations to better match the reduced sales of our products and services. Weakness in the global economy generally and the telecommunications equipment market in particular continue to affect our business substantially. We may be required to take additional steps to reduce our costs including further reductions in force. Any such steps would likely result in significant charges from write-downs or write-offs of assets, costs of lease terminations, and expenses resulting from the termination of personnel.

**Our results can fluctuate unpredictably**

In general, our revenue and operating results in any reporting period may fluctuate significantly due to a variety of factors including:

- fluctuations in demand for our products;
- changes in our pricing policies or the pricing policies of our competitors;
- the timing and size of orders from customers;
- changes in customers’ requirements, including changes or cancellations to orders from customers;
- the introduction of new products by us or our competitors;
- changes in the price or availability of components for our products;
- readiness of customer sites for installation;
- satisfaction of contractual customer acceptance criteria and related revenue recognition issues;
- manufacturing and shipment delays and deferrals;
- increased service, installation, warranty or repair costs;
- the timing and amount of employer payroll tax to be paid on employee gains on stock options exercised; and
- changes in general economic conditions as well as those specific to the telecommunications and intelligent optical networking industries.

Our intelligent optical networking products require large investments. We have a limited number of potential customers in each geographic market, and each has unique needs. Our customers are generally technically sophisticated and demanding. As a result, the sales cycles for our products are long, often as much as a year or two between initial contact with a potential customer and the recognition of revenue from sales to the customer. Our customers' purchases tend to be large and sporadic, depending upon their need to build a customer base, their plans for expanding their networks, the availability of financing, and the effects of regulatory and business conditions in the countries in which they operate. As a result, their purchase decisions can be unpredictable and subject to unanticipated changes. Our results, in turn, tend to fluctuate unpredictably. This tendency has been amplified by conditions arising from the current uncertain economic environment.

Current economic and market conditions have made it more difficult to make reliable estimates of future revenue. Fluctuations in our revenue can lead to even greater fluctuations in our operating profits. Our budgeted expense levels depend in part on our expectations of long-term future revenue. These budgets reflect the substantial investments in financial, engineering, manufacturing and logistics support resources we must make to support large customers, even though we are unsure of the volume, duration or timing of their purchases. In addition, we continue to make substantial expenditures on the development of new and enhanced products. Any substantial adjustment to expenses to account for lower levels of revenue is difficult and takes time. Consequently, if our revenue does decline, our levels of inventory, operating expenses and general overhead would be high relative to our revenue, reducing our profitability, and perhaps resulting in additional operating losses.

**Our future success will depend on our ability to acquire new customers, increase our product portfolio and expand our distribution channels**

Historically, a large percentage of our sales have been made to emerging carriers, many of which have experienced severe financial difficulties. Consequently, we expect our sales to emerging carriers to be limited, and our future success will depend on our ability to increase our sales to incumbent carriers, including, in the United States, the regional Bell operating companies ("RBOCs"), and abroad, the large, traditional telecommunications operators ("TOs"), many of which were formerly government-owned "post, telephone and telegraph" enterprises. These large companies typically require lengthy sales cycles. Many have long-standing supplier relationships with other vendors, and our experience in selling to them is limited. These customers often require extensive testing of products before accepting them, and we are typically unable to recognize revenue until the tests are completed satisfactorily. The certification process for new telecommunications equipment used in the networks of the RBOCs and TOs tends to be particularly lengthy and difficult. Complying with these certification requirements may involve unanticipated delays that could adversely affect the timing of our ability to sell our products to these larger carriers. If we do not succeed in penetrating this segment of the market, our business could suffer.

We sell some of our products to systems integrators and, to a limited extent, directly to large enterprises. We have limited experience with sales through business partners, and it is uncertain to what extent we will be successful in pursuing them.

In order to make our offerings more attractive both to our existing customers and the new customers we hope to attract, we believe it is important that we increase our portfolio to include products that operate at the edge of the network and products that enable sophisticated services, including data services, beyond transport and switching. We plan to implement this strategy through a combination of internal development, acquisitions of smaller companies, and forming strategic alliances with other vendors. If we fail to execute this strategy, our addressable market may not be large enough to enable us to reach profitability at our current size.

Our strategy calls for us to expand the range of our product offerings and to sell to a greater variety of customers, both of which involve our entry into markets with which we have limited familiarity. In doing so, we will be confronted with new development challenges and sales and service issues with which we have limited experience to date. A failure to address those issues satisfactorily would harm our prospects for growth.

**The success of our strategy depends on our ability to increase our revenue substantially**

We believe, as a matter of strategy, we must maintain a size and breadth of product portfolio that enables us to be successful in selling to the largest communications providers. In order to carry out that strategy, we have deliberately chosen to continue to spend on research and development, sales, and other operating expenses at levels that will not permit us to return to profitability unless we can increase our revenue substantially. If we fail to do so, we will be required to modify our strategy, which would likely have an adverse effect on our financial condition.

**We may not be successful in enhancing and upgrading our products**

The market for optical networking products is characterized by rapid technological change, frequent introductions of new products, and recurring changes in customer requirements. To succeed in this market, we must continue to develop new products and new features for existing products. Doing so is difficult and costly and there is no assurance that we will continue to be successful. In addition, we must be able to identify and gain access to promising new technologies. Failure to keep pace with technological advances would impair the competitiveness of our products and sooner or later do serious harm to our business.

Our products are based on complex technology that could result in unanticipated delays in developing, improving, manufacturing or deploying them. Modifying our products to enable customers to integrate them into a new type of network architecture entails similar development risks.

Certain enhancements to our products are in the development phase and are not yet ready for commercial manufacturing or deployment. For example, we expect to offer additional feature enhancement releases of the CoreDirector product line over the life of the product and we expect to continue to enhance features of our CoreStream, ONLINE, and MetroDirector K2 products over the life of these products. The maturing process from laboratory prototype to customer trials, and subsequently to general availability, involves a number of steps, including:

- completion of product development;
- the qualification and multiple sourcing of critical components, including ASICs;
- validation of manufacturing methods and processes;
- extensive quality assurance and reliability testing, and staffing of testing infrastructure;
- validation of software; and
- establishment of systems integration and systems test validation requirements.

Each of these steps, in turn, presents serious risks of failure, rework or delay, any one of which could decrease the speed and scope of product introduction and marketplace acceptance of the product. Specialized ASICs and intensive software testing and validation are key to the timely introduction of enhancements to the CoreDirector, ONLINE, and MetroDirector K2 product lines; and schedule delays are common in the final validation phase, as well as in the manufacture of specialized ASICs. In addition, 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. If we do not develop and successfully introduce these products in a timely manner, our business, financial condition and results of operations would be harmed.

**Our strategy involves pursuing strategic acquisitions and investments that may not be successful**

Our business strategy includes acquiring or making strategic investments in other companies with a view to expanding our portfolio of products and services, acquiring new technologies, and accelerating the development of new or improved products. To do so, we may issue equity that would dilute our current shareholders' percentage ownership or incur debt or assume indebtedness. In addition, we may incur significant amortization expenses related to intangible assets. In the fourth quarter fiscal 2001 and fourth quarter fiscal 2002, we incurred a significant write-off of goodwill associated with our previous acquisitions. Acquisitions and strategic investments involve numerous risks, including:

- potential large cash expenditures;
- difficulties in integrating the operations, technologies and products of the acquired companies;
- diversion of management's attention from our core business;
- potential difficulties in completing projects of the acquired company;
- the potential loss of key employees of the acquired company; and
- dependence on unfamiliar or relatively small supply partners.

In addition, acquisitions and strategic investments may involve risks of entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions and of obtaining insufficient revenue to offset increased expenses associated with acquisitions.

**We may not succeed in completing the proposed merger with WaveSmith**

On April 9, 2003, we entered into an agreement to merge with WaveSmith Networks, Inc. The merger is subject to obtaining approval of the shareholders of WaveSmith and certain other closing conditions. There is a risk that we may not be successful in consummating the transaction because of the failure to meet one of these conditions. If the merger is not completed, we could suffer a number of consequences that would adversely affect our business including:

- failure to realize the enhanced financial and competitive position we expect as a result of the acquisition;
- the significant expenses related to the merger we have incurred and will continue to incur prior to closing of the transaction; and
- the possibility that the reseller agreement between CIENA and WaveSmith could be terminated under certain circumstances.

**We may not be able to achieve the benefits we anticipate from the merger with WaveSmith**

Our acquisition of WaveSmith is a complex transaction and involves the combination of CIENA with a private company with limited operating history. Among the risks of the merger are risks of successful integration, potential liabilities that may be incurred as a result of the merger, securities law matters and accounting treatment.

Successful integration of WaveSmith involves numerous risks including:

- assimilating WaveSmith’s technology and product offerings, which may be more difficult than anticipated because the technology is very complex;
- coordinating research and development efforts, which may involve unexpected problems;
- diversion of management attention from business matters to integration issues;
- identifying and retaining key personnel;
- integrating accounting, engineering, information technology and administrative systems which may be unexpectedly difficult or costly;
- making significant cash expenditures that may be required to retain personnel, eliminate unnecessary resources and integrate the business;
- maintaining uniform standards, controls, procedures and policies which may be harder than we anticipate and interfere with efficient administration of the combined company; and
- changes in the businesses as a result of the merger that impair relationships with employees, customers or vendors.

In addition, as a result of the merger, CIENA will succeed to any liabilities of WaveSmith now existing or arising out of WaveSmith’s businesses prior to closing, including unknown liabilities. These liabilities may include liabilities to shareholders, customers, suppliers or employees, as well as liabilities that can arise relating to intellectual property disputes. There is some uncertainty as to whether obtaining the agreements of WaveSmith stockholders to vote in favor of the merger prior to filing a registration statement with the SEC complies with the registration requirements of the Securities Act. While CIENA believes that the merger has been and will be effected in compliance with applicable securities and other laws, there can be no assurance that this is the case. CIENA will also be required to make estimates of the fair market value of certain acquired assets and liabilities that will depend on predictions about future developments. If these predictions are incorrect CIENA may be required to record adjustments to its financial statements in the future.

Failure to overcome these risks or any other problems encountered in connection with the merger could have a material adverse effect on CIENA’s business, results of operations and financial condition.

**We face risks in reselling the products of other companies**

We have recently entered into agreements that permit us to distribute the products of other companies and may enter into other agreements in the future. To the extent we succeed in reselling the products of these companies, we may be required by customers to assume warranty and service obligations. While these suppliers have agreed to support us with respect to those obligations, they are relatively small companies with limited financial resources. If they should be unable, for any reason, to provide the required support, we may have to expend our own resources on doing so. This risk is amplified by the fact that the equipment has been designed and manufactured by others, and is thus subject to warranty claims whose magnitude we are currently unable to evaluate fully.

**We may not be successful in selling our products through new channels**

We have limited experience and capability in direct sales into the enterprise or government markets, or certain geographic markets. We are accordingly taking steps to develop new sales channels through distributors and systems integrators for sales of those of our products that are suitable for those markets. We have limited experience in developing and managing such channels, and it is possible that our efforts may not succeed according to plan, which could reduce our revenue and profitability.

**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 components of our products, as well as for equipment used to manufacture and test our products. Our products include several high-performance components for which reliable, high-volume suppliers are particularly limited. Furthermore, 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. Any delay in component availability for any of our products could result in delays in deployment of these products and in our ability to recognize revenue. These delays could also harm our customer relationships and our results of operations.

Furthermore, the market for optical components is undergoing consolidation and contraction. This is resulting in reduced competition which could lead to higher prices and lower availability of components we purchase. In addition, the loss of a source of supply of key components could require us to re-engineer products that use those components, which would increase our costs.

On occasion, we have experienced delays in receipt of components and have received components that do not perform according to their specifications. Any future difficulty in obtaining sufficient and timely delivery of components could result in delays or reductions in product shipments, which, in turn, could harm our business. A consolidation among suppliers of these components or adverse developments in their businesses affecting their ability to supply us, could adversely impact the availability of components on which we depend. Delayed deliveries of key components from these sources could adversely affect our business.

Any delays in component availability for any of our products or test equipment could result in delays in deployment of these products and in our ability to recognize revenue from them. These delays could also harm our customer relationships and our results of operations.

**We rely on contract manufacturers for our products**

We rely on a small number of contract manufacturers to perform the majority of the manufacturing operations for our products. The qualification of these manufacturers is an expensive and time-consuming process, and these contract manufacturers build modules for other companies, including our competitors. In addition, we do not have contracts in place with some of these manufacturers. We may not be able to effectively manage our relationships with our manufacturers and we cannot be certain that they will be able to fill our orders in a timely manner. If we underestimate our future product requirements, the contract manufacturers may not have enough product to meet our customer requirements, and this could result in delays in the shipment of our products and our ability to recognize revenue. If we cannot effectively manage these manufacturers and forecast future demand, or if they fail to deliver products or components on time, our business may suffer.

**Our ability to compete could be harmed if we are unable to protect and enforce our intellectual property rights or if we infringe on intellectual property rights of others**

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. We enter into non-disclosure and proprietary rights agreements with our employees and consultants, license agreements with our corporate partners, and control access to and distribution of our products, documentation and other proprietary information. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our products or technology. Monitoring unauthorized use of our products is difficult and we cannot be certain that the steps we have taken will prevent unauthorized use of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. If competitors are able to use our technology, our ability to compete effectively could be harmed. We have filed an intellectual property lawsuit to enforce our intellectual property right, and may become involved with additional disputes in the future. Such lawsuits can be costly and may significantly divert the time and attention of our personnel.

We have received, and may receive in the future, notices from holders of patents in the optical technology field that raise issues of possible infringement by our products. Questions of infringement in the optical networking equipment market often involve highly technical and subjective analysis. We cannot assure you that any of these patent holders or others will not in the future initiate legal proceedings against us, or that we will be successful in defending against these actions. We are involved in intellectual property disputes regarding the possible infringement of our products. In the past, we have been forced to take a license from the owner of allegedly infringed intellectual property, or to redesign or stop selling the product that includes the challenged intellectual property. If we are sued for infringement and are unsuccessful in defending the suit, we could be subject to significant damages, and our business and customer relationships could be adversely affected.

**We face risks associated with our international operations**

We market, sell and service our products globally. We have established offices around the world, including in North America, Europe, Latin America and in the Asia Pacific region. We will continue to expand our international operations and enter new international markets. This expansion will require significant management attention and financial resources to develop successfully direct and indirect international sales and support channels. In some countries, our success will depend in part on our ability to form relationships with local partners. We cannot be sure that we will be able to identify appropriate partners or reach mutually satisfactory arrangements with them for sales of our products. There is a risk that we may sometimes choose the wrong partner. For these reasons, we may not be able 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 variety of uncontrollable and changing factors. These include:

- 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;
- unexpected changes in regulatory requirements;
- certification requirements;
- reduced protection for intellectual property rights in some countries;
- potentially adverse tax consequences;
- political and economic instability;
- trade protection measures and other regulatory requirements;
- service provider and government spending patterns; and
- natural disasters and epidemics.

Such factors could have a material adverse impact on our operating results and financial condition.

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

If we are unable to retain and motivate our existing employees and attract qualified personnel to fill key positions, we may be unable to effectively develop our existing products, make timely product introductions and increase sales. Since we generally do not have employment contracts with our employees, we must rely upon providing competitive compensation packages and a dynamic work environment to retain and motivate employees. In response to the decline in our revenue and weakness in the telecommunications equipment market, we have not increased salaries for or paid bonuses to most of our employees since the end of fiscal 2001. Since our compensation packages include equity-based incentives, pressure on our stock price could affect our ability to continue to offer competitive compensation packages to our employees. In addition to these compensation issues, we must continue to motivate employees to execute our strategies and achieve our goals, which may be difficult due to morale challenges posed by the workforce reductions and uncertainty in our industry and the economy in general.

If we lose members of our management team or other key personnel, it may be difficult to replace them. Even in the current economic downturn, competition for highly skilled technical and other personnel can be intense. As a result, we may not be successful in identifying, recruiting and hiring qualified engineers and other key personnel.

**The market for our long-haul product line has substantially diminished**

Our business was originally built on the success of our “long-haul” optical transmission products, Sentry and CoreStream, which allowed multiple optical signals to be combined for transmission from point to point over a single optical fiber. During the last several years, carriers around the world, both incumbents and challengers, have laid and “lit” with optical equipment like ours, a substantial amount of long-haul optical fiber. This has created what appears to be an oversupply of new communications “bandwidth” on many long-haul routes. In addition, since the introduction of these products, technological advances have enabled the transmission of more optical signals over greater distances for less cost. As a consequence, the market opportunity for long-haul optical equipment, including ours, has declined steeply, dramatically reducing our revenue from these products. We do not know when, if ever, the market for our long-haul products will return.

**Some of our suppliers are also competitors**

Some of our component suppliers are both primary sources for components and major competitors in the market for system equipment. We buy components from Alcatel, NEC and Siemens. Each of these companies offers optical communications systems and equipment that compete against our products. A decline in reliability or other adverse change in these supply relationships could harm our business.

**We are exposed to the credit risk of our customers**

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. 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, if large, could have a material adverse effect on our operating results and financial condition.

**Our stock price is volatile**

Our common stock price has experienced substantial volatility in the past, and is likely to remain volatile in the future. Volatility can arise as a result of divergence between our actual or anticipated financial results and published expectations of analysts, and announcements that we, our competitors, or our customers may make.

Divergence between our actual results and our anticipated results, analyst estimates and public announcements by us, our competitors, or by customers will occur from time to time in the future, with resulting stock price volatility, irrespective of our overall year-to-year performance or long-term prospects. As long as we continue to depend on a limited customer base, and particularly when a substantial majority of their purchases consist of newly-introduced products, there is substantial chance that our quarterly results will vary widely.

**Forward-looking statements**

Some of the statements contained, or incorporated by reference, in this quarterly report discuss future expectations, contain projections of results of operations or financial condition or state other “forward-looking” information. Those statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The “forward-looking” information is based on various factors and was derived using numerous assumptions. In some cases, you can identify these so-called “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 those statements only reflect our predictions. Actual events or results may differ substantially. 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” above.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

**Interest Rate Sensitivity.** The Company 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 percent from levels at April 30, 2003, the fair value of the portfolio would decline by approximately $94.6 million.

**Foreign Currency Exchange Risk.** As a global concern, the Company faces exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve and could have a material adverse impact on the Company's financial results. Historically CIENA's primary exposures have been related to non-dollar denominated operating expenses in Europe and Asia where the Company sells primarily in U.S. dollars. CIENA is prepared to hedge against fluctuations in foreign currency if this exposure becomes material. As of April 30, 2003, the assets and liabilities of the Company related to non-dollar denominated currencies was not material. Therefore we do not expect an increase or decrease of 10 percent in the foreign exchange rate would have a material impact on the Company's financial position.

**Item 4. Controls and Procedures**

a) Evaluation of disclosure controls and procedures. The Chief Executive Officer and the Chief Financial Officer have reviewed CIENA's disclosure controls and procedures within the 90-day period prior to the filing of this quarterly report (the "Evaluation Date"). Based on that review, they have concluded that these controls and procedures are, in design and operation, effective to assure that the information required to be included in this report has been properly collected, processed, and timely communicated to those responsible in order that it may be included in this report.

b) Changes in internal controls. Subsequent to the date on which the Chief Executive Officer and the Chief Financial Officer evaluated CIENA's disclosure controls and procedures, there have been no significant changes, including corrective actions, in CIENA's internal controls or in other factors that could significantly affect the disclosure controls and procedures.

**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 alleging that optical fiber amplifiers incorporated into CIENA's products infringe U.S. Patent No. 4,859,016. The complaint seeks injunctive relief, royalties and damages. We were first served with this complaint on April 30, 2003. Although we are currently engaged in discussions with the plaintiff regarding settlement of the matter, we believe that we have valid defenses to the lawsuit and intend to defend it vigorously.

On July 19, 2000, CIENA and CIENA Properties, Inc., a wholly owned subsidiary of CIENA, filed a complaint in the United States District Court for the District of Delaware requesting damages and injunctive relief against Corvis Corporation ("Corvis"). The suit charged Corvis with infringing four patents relating to CIENA's optical networking communication systems and technology. A jury trial to determine whether Corvis is infringing these patents commenced on February 10, 2003. On February 24, 2003, the jury decided that Corvis was infringing one of the patents and not infringing two others. The jury was deadlocked with respect to infringement on the fourth patent. This trial was immediately followed by a trial on Corvis' affirmative defenses based on the validity of two of the patents. On February 28, 2003, the jury in this trial determined that the patents were valid. In April 2003, following a third trial, another jury decided that Corvis had infringed the fourth patent on which the previous jury had deadlocked. Based on these favorable verdicts collectively holding that Corvis is infringing two valid CIENA patents, CIENA plans to seek an injunction to prohibit the sale by Corvis of the infringing products.

As a result of the merger with ONI, 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 our 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 Mr. Davis have been dismissed from the action with out prejudice pursuant to a tolling agreement. In July 2002, ONI and other issuers in the consolidated cases filed motions to dismiss the amended complaint for failure to state a claim, which was denied as to ONI on February 19, 2003. We intend to continue to defend these actions vigorously.

As a result of the merger with ONI, we also became a defendant in two substantially identical purported class actions on behalf of ONI security holders originally brought against ONI and members of its board of directors. The complaints allege that the director defendants breached their fiduciary duties to ONI in approving the merger with CIENA and seek declaratory, injunctive and other relief permitted by equity. The plaintiffs failed to obtain an injunction against completion of the merger. The first of these cases was filed on February 20, 2002, in the Superior Court of the State of California, County of San Mateo, and is encaptioned K.W. Sams, On Behalf of Himself and All Others Similarly Situated v. ONI Systems Corporation, et al. The second case was brought on March 19, 2002, in the Superior Court of the State of California, County of Santa Clara, and is encaptioned Steven Myeary, On Behalf of Himself and All Others Similarly Situated v. ONI Systems Corporation. On April 14, 2003, the plaintiffs in these cases filed a consolidated amended complaint and named three additional defendants: CIENA Corporation, Kleiner Perkins Caufield & Byers and Mohr Davidow Ventures. We believe that these lawsuits are without merit and will continue to defend them vigorously.

**Item 2. Changes in securities and use of Proceeds**

Not applicable.

**Item 3. Defaults Upon Senior Securities**

Not applicable

**Item 4. Submission of Matters to a Vote of Security Holders**

The annual meeting of our stockholders was held on March 12, 2003. At the annual meeting, our stockholders voted on the following matters:

| | | Votes For | Votes Withheld |
|---|---|---|---|
| 1. | Election of three Class II Directors | | |
| | Stephen P. Bradley, Ph.D. | 352,245,016 | 28,296,220 |
| | Don H. Davis, Jr. | 371,443,238 | 9,097,998 |
| | Gerald H. Taylor | 357,349,403 | 23,191,833 |
| | In addition, the following directors continue to hold office after that meeting: Harvey B. Cash, John R. Dillon, Lawton W. Fitt, Patrick H. Nettles, Ph.D., Judith M. O’ Brien and Gary B. Smith. | | |

| | | Votes For | Votes Against | Votes Abstained |
|---|---|---|---|---|
| 2. | Approval of CIENA’s 2003 Employee Stock Purchase Plan | 357,620,976 | 9,018,903 | 13,901,357 |

***Item 5. Other Information***

Not applicable.

***Item 6. Exhibits and Reports on Form 8-K***

| (a) | Exhibit | Description |
|---|---|---|
| | 99.1 | 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. |
| | 99.2 | 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. |

(b) Reports on Form 8-K:

- Form 8-K (Item 7 and Item 9 reported) filed February 20, 2003
- Form 8-K (Item 9 reported) filed April 10, 2003
- Form 8-K (Item 7 and Item 9 reported) filed May 22, 2003

## 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: May 22, 2003 | By: | /s/ Gary B. Smith |
| | | Gary B. Smith<br>President, Chief Executive Officer<br>and Director<br>(Duly Authorized Officer) |
| Date: May 22, 2003 | By: | /s/ Joseph R. Chinnici |
| | | Joseph R. Chinnici<br>Senior Vice President, Finance and<br>Chief Financial Officer<br>(Principal Financial Officer) |

**CERTIFICATIONS**

I, Gary B. Smith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CIENA Corporation;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 22, 2003

/s/ Gary B. Smith
Gary B. Smith
President and Chief Executive Officer

I, Joseph R. Chinnici, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CIENA Corporation;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 22, 2003

/s/ Joseph R. Chinnici
Joseph R. Chinnici
Senior Vice President and Chief Financial Officer

**EXHIBIT 99.1**

**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 three months ended April 30, 2003 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
Chief Executive Officer
May 22, 2003

A signed original of the 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 the staff upon request.

**EXHIBIT 99.2**

**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 three months ended April 30, 2003 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
Chief Financial Officer
May 22, 2003

A signed original 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 the staff upon request.