CIENA CORP
Form 10-Q
September 08, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

(Mark one)

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

For the quarterly period ended July 31, 2010

OR

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

For the transition period from __________ to __________

Commission file number: 0-21969

Ciena Corporation

(Exact name of registrant as specified in its charter)

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

(410) 865-8500

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES þ NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (do not check if smaller reporting company)	Smaller reporting company o

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

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

Class	**Outstanding at August 28, 2010**

common stock, $.01 par value	93,571,893

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Quarter Ended July 31,		Nine Months Ended July 31,	
	2009	2010	2009	2010
Revenue:				
Products	$ 139,903	$ 312,378	$ 398,469	$ 667,852
Services	24,855	77,297	77,890	151,170
Total revenue	164,758	389,675	476,359	819,022
Cost of goods sold:				
Products	72,842	201,559	214,628	396,449
Services	17,251	44,107	54,503	93,462
Total cost of goods sold	90,093	245,666	269,131	489,911
Gross profit	74,665	144,009	207,228	329,111
Operating expenses:				
Research and development	44,442	100,869	140,624	222,044
Selling and marketing	31,468	52,127	98,582	131,692
General and administrative	11,524	32,649	35,724	66,915
Acquisition and integration costs		17,033		83,285
Amortization of intangible assets	6,224	38,727	18,852	61,829
Restructuring costs	3,941	2,157	10,416	3,985
Goodwill impairment			455,673	
Total operating expenses	97,599	243,562	759,871	569,750
Loss from operations	(22,934)	(99,553)	(552,643)	(240,639)
Interest and other income (loss), net	999	(2,668)	9,167	307
Interest expense	(1,856)	(5,990)	(5,552)	(11,931)
Loss on cost method investments	(2,193)		(5,328)	
Loss before income taxes	(25,984)	(108,211)	(554,356)	(252,263)
Provision for income taxes	470	1,644	139	934
Net loss	$ (26,454)	$ (109,855)	$ (554,495)	$ (253,197)
Basic net loss per common share	$ (0.29)	$ (1.18)	$ (6.10)	$ (2.73)
Diluted net loss per potential common share	$ (0.29)	$ (1.18)	$ (6.10)	$ (2.73)

Weighted average basic common shares outstanding	91,364	92,906	90,970	92,851
Weighted average dilutive potential common shares outstanding	91,364	92,906	90,970	92,851

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

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

	October 31, 2009	July 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 485,705	$ 470,237
Short-term investments	563,183	184
Accounts receivable, net	118,251	260,277
Inventories	88,086	222,164
Prepaid expenses and other	50,537	118,571
Total current assets	1,305,762	1,071,433
Long-term investments	8,031	
Equipment, furniture and fixtures, net	61,868	118,755
Goodwill		38,086
Other intangible assets, net	60,820	470,610
Other long-term assets	67,902	112,587
Total assets	$ 1,504,383	$ 1,811,471
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 53,104	$ 118,972
Accrued liabilities	103,349	178,427
Restructuring liabilities	1,811	3,021
Income tax payable		1,306
Deferred revenue	40,565	58,655
Total current liabilities	198,829	360,381
Long-term deferred revenue	35,368	32,122
Long-term restructuring liabilities	7,794	5,995
Other long-term obligations	8,554	10,098
Convertible notes payable	798,000	1,174,580
Total liabilities	1,048,545	1,583,176
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; 290,000,000 shares authorized; 92,038,360 and 93,567,775 shares issued and outstanding	920	936

Additional paid-in capital	5,665,028	5,692,387
Accumulated other comprehensive income (loss)	1,223	(498)
Accumulated deficit	(5,211,333)	(5,464,530)
Total stockholders equity	455,838	228,295
Total liabilities and stockholders equity	$ 1,504,383	$ 1,811,471

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

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

	Nine Months Ended July 31, 2009	Nine Months Ended July 31, 2010
Cash flows from operating activities:		
Net loss	$ (554,495)	$ (253,197)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization of (discount) premium on marketable securities	(858)	574
Loss on cost method investments	5,328	
Gain on embedded redemption feature		(2,570)
Depreciation of equipment, furniture and fixtures, and amortization of leasehold improvements	16,270	28,146
Impairment of goodwill	455,673	
Share-based compensation costs	26,075	26,451
Amortization of intangible assets	23,804	82,476
Provision for inventory excess and obsolescence	11,126	10,749
Provision for warranty	13,620	16,388
Other	1,529	1,955
Changes in assets and liabilities, net of effect of acquisition:		
Accounts receivable	18,128	(134,844)
Inventories	(7,274)	(30,765)
Prepaid expenses and other	(1,696)	(29,528)
Accounts payable, accruals and other obligations	(5,799)	83,580
Income taxes payable		1,306
Deferred revenue	4,073	(3,957)
Net cash provided by (used in) operating activities	5,504	(203,236)
Cash flows from investing activities:		
Payments for equipment, furniture, fixtures and intellectual property	(17,630)	(34,646)
Restricted cash	(1,914)	(18,845)
Purchase of available for sale securities	(926,621)	(63,591)
Proceeds from maturities of available for sale securities	321,554	454,141
Proceeds from sales of available for sale securities	523,137	179,380
Acquisition of business		(693,247)
Net cash used in investing activities	(101,474)	(176,808)
Cash flows from financing activities:		
Proceeds from issuance of 4.0% convertible notes payable, net		364,316
Proceeds from issuance of common stock and warrants	533	924
Net cash provided by financing activities	533	365,240
Effect of exchange rate changes on cash and cash equivalents	500	(664)

Net decrease in cash and cash equivalents	(95,437)	(14,804)
Cash and cash equivalents at beginning of period	550,669	485,705
Cash and cash equivalents at end of period	$ 455,732	$ 470,237
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	$ 4,748	$ 4,748
Income taxes, net	$ 250	$ 2,037
Non-cash investing and financing activities		
Purchase of equipment in accounts payable	$ 1,205	$ 4,421

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

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CIENA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(1) INTERIM FINANCIAL STATEMENTS

The interim financial statements included herein for Ciena Corporation (Ciena) have been prepared by Ciena, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, financial statements included in this report reflect all normal recurring adjustments that Ciena considers necessary for the fair statement of the results of operations for the interim periods covered and of the financial position of Ciena at the date of the interim balance sheets. 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. The October 31, 2009 condensed consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. However, Ciena believes that the disclosures are adequate to understand the information presented. The operating results for interim periods are not necessarily indicative of the operating results for the entire year. These financial statements should be read in conjunction with Ciena s audited consolidated financial statements and notes thereto included in Ciena s annual report on Form 10-K for the fiscal year ended October 31, 2009.

On March 19, 2010, Ciena completed its acquisition of substantially all of the optical networking and Carrier Ethernet assets of Nortel s Metro Ethernet Networks (MEN Business). Ciena s results of operations for the third quarter include the results of the MEN Business for the entire period and the results of operations for the nine month period ended July 31, 2010 reflect the operations of the MEN Business beginning on the March 19, 2010 acquisition date. See Note 3 below.

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

(2) SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of the financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. Estimates are used for bad debts, valuation of inventories and investments, recoverability of intangible assets, other long-lived assets and goodwill, income taxes, warranty obligations, restructuring liabilities, derivatives and contingencies and litigation. Ciena bases its estimates on historical experience and assumptions that it believes are reasonable. Actual results may differ materially from management s estimates.

Cash and Cash Equivalents

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

Investments

Ciena s investments are classified as available-for-sale and are reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive income. Ciena recognizes losses when it determines that declines in the fair value of its investments, below their cost basis, are other-than-temporary. In determining whether a decline in fair value is other-than-temporary, Ciena considers various factors including market price (when available), investment ratings, the financial condition and near-term prospects of the investee, the length of time and the extent to which the fair value has been less than Ciena s cost basis, and its intent and ability to hold the investment until maturity or for a period of time sufficient to allow for any anticipated recovery in market value. Ciena considers all marketable debt securities that it expects to convert to cash within one year or less to be short-term investments. All others are considered long-term investments.

Ciena has certain minority equity investments in privately held technology companies that are classified as other assets. These investments are carried at cost because Ciena owns less than 20% of the voting equity and does not have the ability to exercise significant influence over these companies. These investments involve a high degree of risk as the markets for the technologies or products manufactured by these companies are usually early stage at the time of Ciena s investment and such markets may never be significant. Ciena could lose its entire investment in some or all of these companies. Ciena monitors these investments for impairment and makes appropriate reductions in carrying values when necessary.

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Inventories

Inventories are stated at the lower of cost or market, with cost computed using standard cost, which approximates actual cost, on a first-in, first-out basis. Ciena records a provision for excess and obsolete inventory when an impairment has been identified.

Segment Reporting

Effective upon the March 19, 2010 completion of the acquisition of the MEN Business, Ciena reorganized its internal organizational structure and the management of its business. Ciena s chief operating decision maker, its chief executive officer, evaluates performance and allocates resources based on multiple factors, including segment profit (loss) information for the following product categories: (i) Packet-Optical Transport; (ii) Packet-Optical Switching; (iii) Carrier Ethernet Service Delivery; and (iv) Software and Services. Operating segments are defined as components of an enterprise: that engage in business activities which may earn revenue and incur expense; for which discrete financial information is available; and for which such information is evaluated regularly by the chief operating decision maker for purposes of allocating resources and assessing performance. Ciena considers the four product categories above to be its operating segments for reporting purposes. See Notes 3 and 20.

Goodwill

Goodwill is the excess of the purchase price over the fair values assigned to the net assets acquired in a business combination. Goodwill is assigned to the reporting units that are expected to benefit from the synergies of the combination. Ciena has determined that its operating segments and reporting units for goodwill assignment are the same. This determination is based on the fact that components below Ciena s operating segment level, such as individual product or service offerings, do not constitute a reporting unit because they do not constitute a business for which discrete financial information is available.

Ciena tests each reporting unit s goodwill for impairment on an annual basis, which Ciena has determined to be the last business day of its fiscal September each year. Testing is required between annual tests if events occur or circumstances change that would, more likely than not, reduce the fair value of the reporting unit below its carrying value. Prior to the reorganization of Ciena s operations described above, Ciena tested its goodwill for impairment as a single reporting unit.

Long-lived Assets

Ciena s long-lived assets include: equipment, furniture and fixtures; intangible assets; and maintenance spares. Ciena tests long-lived assets for impairment whenever triggering events or changes in circumstances indicate that the assets carrying amount is not recoverable from its undiscounted cash flows. An impairment loss is measured as the amount by which the carrying amount of the asset or asset group exceeds its fair value. Ciena s long-lived assets are assigned to reporting units which represent the lowest level for which cash flows can be identified.

Equipment, Furniture and Fixtures

Equipment, furniture and fixtures are recorded at cost. Depreciation and amortization are computed using the straight-line method over useful lives of two years to five years for equipment, furniture and fixtures and the shorter of useful life or lease term for leasehold improvements.

Qualifying internal use software and website development costs incurred during the application development stage that consist primarily of outside services and purchased software license costs, are capitalized and amortized straight-line over the estimated useful life.

Intangible Assets

Ciena has recorded finite-lived and indefinite lived intangible assets as a result of several acquisitions. Finite-lived intangible assets are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the expected economic lives of the respective assets, from nine months to seven years, which approximates the use of intangible assets.

Indefinite-lived intangible assets are carried at cost and reflect in-process research and development assets acquired from the MEN Business. In-process research and development assets will be impaired, if abandoned, or amortized in future periods, depending upon the ability of Ciena to use the research and development in future periods. Future expenditures to complete the in-process research and development projects will be expensed as incurred.

Maintenance Spares

Maintenance spares are recorded at cost. Spares usage cost is computed using the straight-line method over useful lives of four years.

Concentrations

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

Historically, a large percentage of Ciena s revenue has been the result of sales to a small number of communications service providers. Consolidation among Ciena s customers has increased this concentration. Consequently, Ciena s accounts receivable are concentrated among these customers. See Notes 9 and 20 below.

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

Revenue Recognition

Ciena recognizes revenue when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the price to the buyer is fixed or determinable; and collectibility is reasonably assured. Customer purchase agreements and customer purchase orders are generally used to determine the existence of an arrangement. Shipping documents and evidence of customer acceptance, when applicable, are used to verify delivery. Ciena assesses whether the price is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment. Ciena assesses collectibility based primarily on the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer s payment history. Revenue for maintenance services is generally deferred and recognized ratably over the period during which the services are to be performed.

Ciena applies the percentage of completion method to long-term arrangements where it is required to undertake significant production, customizations or modification engineering, and reasonable and reliable estimates of revenue and cost are available. Utilizing the percentage of completion method, Ciena recognizes revenue based on the ratio of actual costs incurred to date to total estimated costs expected to be incurred. In instances that do not meet the percentage of completion method criteria, recognition of revenue is deferred until there are no uncertainties regarding customer acceptance.

Some of Ciena s communications networking equipment is integrated with software that is essential to the functionality of the equipment. Software revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is probable. In instances where final acceptance of the product is specified by the customer, revenue is deferred until there are no uncertainties regarding customer acceptance.

Arrangements with customers may include multiple deliverables, including any combination of equipment, services and software. If multiple element arrangements include software or software-related elements that are essential to the equipment, Ciena allocates the arrangement fee to be allocated to those separate units of accounting. Multiple element arrangements that include software are separated into more than one unit of accounting if the functionality of the delivered element(s) is not dependent on the undelivered element(s), there is vendor-specific objective evidence of the fair value of the undelivered element(s), and general revenue recognition criteria related to the delivered element(s) have been met. The amount of product and services revenue recognized is affected by Ciena s judgments as to whether an arrangement includes multiple elements and, if so, whether vendor-specific objective evidence of fair value exists. Changes to the elements in an arrangement and Ciena s ability to establish vendor-specific objective evidence for those elements could affect the timing of revenue recognition. For all other deliverables, Ciena separates the elements into more than one unit of accounting if the delivered element(s) have value to the customer on a stand-alone basis, objective and reliable evidence of fair value exists for the undelivered element(s), and delivery of the undelivered element(s) is probable and substantially in Ciena s control. Revenue is allocated to each unit of accounting based on the relative fair value of each accounting unit or using the residual method if objective evidence of fair value does not exist for the delivered element(s). The revenue recognition criteria described above are applied to each separate unit of accounting. If these criteria are not met, revenue is deferred until the criteria are met or the last element has been delivered.

Warranty Accruals

Ciena provides for the estimated costs to fulfill customer warranty obligations upon the recognition of the related revenue. Estimated warranty costs include estimates for material costs, technical support labor costs and associated overhead. The warranty liability is included in cost of goods sold and determined based upon actual warranty cost experience, estimates of component failure rates and management s industry experience. Ciena s sales contracts do not permit the right of return of product by the customer after the product has been accepted.

During the first quarter of fiscal 2010, Ciena recorded an adjustment to reduce its warranty liability and cost of goods sold by $3.3 million, to correct an overstatement of warranty expenses related to prior periods. The adjustment related to an error in the methodology of computing the annual failure rate used to calculate the warranty accrual. There was no tax impact as a result of this adjustment. Ciena believes this adjustment is not material to its financial statements for prior annual or interim periods, the first nine months of fiscal 2010 or the expected annual results for fiscal 2010.

Accounts Receivable, Net

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

Research and Development

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

Advertising Costs

Ciena expenses all advertising costs as incurred.

Legal Costs

Ciena expenses legal costs associated with litigation defense as incurred.

Share-Based Compensation Expense

Ciena measures and recognizes compensation expense for share-based awards based on estimated fair values on the date of grant. Ciena estimates the fair value of each option-based award on the date of grant using the Black-Scholes option-pricing model. This model is affected by Ciena s stock price as well as estimates regarding a number of variables including expected stock price volatility over the expected term of the award and projected employee stock option exercise behaviors. Ciena estimates the fair value of each share-based award based on the fair value of the underlying common stock on the date of grant. In each case, Ciena only recognizes expense to its consolidated statement of operations for those options or shares that are expected ultimately to vest. Ciena uses two attribution methods to record expense, the straight-line method for grants with service-based vesting and the graded-vesting method, which considers each performance period or tranche separately, for all other awards. See Note 18 below.

Income Taxes

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

Ciena adopted the accounting guidance on uncertainty related to income tax positions at the beginning of fiscal 2008. Ciena classifies interest and penalties related to uncertain tax positions as a component of income tax expense. All of the uncertain tax positions, if recognized, would decrease the effective income tax rate.

In the ordinary course of business, transactions occur for which the ultimate outcome may be uncertain. In addition, tax authorities periodically audit Ciena s income tax returns. These audits examine significant tax filing positions, including the timing and amounts of deductions and the allocation of income tax expenses among tax jurisdictions. Ciena s major tax jurisdictions and the related open tax years are as follows: United States (2007), United Kingdom (2004), Canada (2005) and India (2007). However, limited adjustments can be made to Federal tax returns in earlier years in order to reduce net operating loss carryforwards.

Ciena has not provided U.S. deferred income taxes on the cumulative unremitted earnings of its non-U.S. affiliates as it plans to permanently reinvest cumulative unremitted foreign earnings outside the U.S. and it is not practicable to determine the unrecognized deferred income taxes. These cumulative unremitted foreign earnings relate to ongoing operations in foreign jurisdictions and are required to fund foreign operations, capital expenditures, and any expansion requirements.

Ciena recognizes windfall tax benefits associated with the exercise of stock options or release of restricted stock units directly to stockholders equity only when realized. A windfall tax benefit occurs when the actual tax benefit realized by Ciena upon an employee s disposition of a share-based award exceeds the deferred tax asset, if any, associated with the award that Ciena had recorded. When assessing whether a tax benefit relating to share-based compensation has been realized, Ciena follows the tax law with-and-without method. Under the with-and-without method, the windfall is considered realized and recognized for financial statement purposes only when an incremental benefit is provided after considering all other tax benefits including Ciena s net operating losses. The with-and-without method results in the windfall from share-based compensation awards always being effectively the last tax benefit to be considered. Consequently, the windfall attributable to share-based compensation will not be considered realized in instances where Ciena s net operating loss carryover (that is unrelated to windfalls) is sufficient to offset the current year s taxable income before considering the effects of current-year windfalls.

Loss Contingencies

Ciena is subject to the possibility of various losses arising in the ordinary course of business. These may relate to disputes, litigation and other legal actions. Ciena considers the likelihood of loss or the incurrence of a liability, as well as Ciena s ability to reasonably estimate the amount of loss, in determining loss contingencies. An estimated loss contingency is accrued when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Ciena regularly evaluates current information available to it to determine whether any accruals should be adjusted and whether new accruals are required.

Fair Value of Financial Instruments

The carrying value of Ciena s cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities, approximates fair market value due to the relatively short period of time to maturity. The fair value of investments in marketable debt securities is determined using quoted market prices for those securities or similar financial instruments. For information related to the fair value of Ciena s convertible notes, see Note 8 below.

Fair value for the measurement of financial assets and liabilities is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. Ciena utilizes a valuation hierarchy for disclosure of the inputs for fair value measurement. This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities;

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Level 2 inputs are quoted prices for identical or similar assets or liabilities in less active markets or model-derived valuations in which significant inputs are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument;

Level 3 inputs are unobservable inputs based on Ciena s assumptions used to measure assets and liabilities at fair value.

By distinguishing between inputs that are observable in the marketplace, and therefore more objective, and those that are unobservable and therefore more subjective, the hierarchy is designed to indicate the relative reliability of the fair value measurements. A financial asset or liability s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Restructuring

From time to time, Ciena takes actions to align its workforce, facilities and operating costs with perceived market opportunities and business conditions. Ciena implements these restructuring plans and incurs the associated liability concurrently. Generally accepted accounting principles require that a liability for the cost associated with an exit or disposal activity be recognized in the period in which the liability is incurred, except for one-time employee termination benefits related to a service period of more than 60 days, which are accrued over the service period. See Note 6 below.

Foreign Currency

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

Derivatives

Ciena s 4.0% convertible senior notes include a redemption feature that is accounted for as a separate embedded derivative. The embedded redemption feature is recorded at fair value on a recurring basis and these changes are included in interest and other income (expense), net on the Condensed Consolidated Statement of Operations.

Occasionally, Ciena uses foreign currency forward contracts to hedge certain forecasted foreign currency transactions relating to operating expenses. Historically these derivatives, designated as cash flow hedges, had maturities of less than one year and permitted net settlement.

At the inception of the cash flow hedge and on an ongoing basis, Ciena assesses the hedging relationship to determine its effectiveness in offsetting changes in cash flows attributable to the hedged risk during the hedge period. The effective portion of the hedging instrument s net gain or loss is initially reported as a component of accumulated other comprehensive income (loss), and upon occurrence of the forecasted transaction, is subsequently reclassified into the operating expense line item to which the hedged transaction relates. Any net gain or loss associated with the ineffectiveness of the hedging instrument is reported in interest and other income, net. See Note 15 below.

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

Ciena calculates basic earnings per share (EPS) by dividing earnings attributable to common stock by the weighted-average number of common shares outstanding for the period. Diluted EPS includes other potential dilutive common stock that would occur if securities or other contracts to issue common stock were exercised or converted into common stock. Ciena uses a dual presentation of basic and diluted EPS on the face of its income statement. A reconciliation of the numerator and denominator used for the basic and diluted EPS computations is set forth in Note 17.

Software Development Costs

Generally accepted accounting principles require the capitalization of certain software development costs incurred subsequent to the date technological feasibility is established and prior to the date the product is generally available for sale. The capitalized cost is then amortized straight-line over the estimated life of the product. Ciena defines technological feasibility as being attained at the time a working model is completed. To date, the period between Ciena achieving technological feasibility and the general availability of such software has been short, and software development costs qualifying for capitalization have been insignificant. Accordingly, Ciena has not capitalized any software development costs.

Newly Issued Accounting Standards

In October 2009, the Financial Accounting Standards Board, (FASB) amended the accounting standards for revenue recognition with multiple deliverables. The amended guidance allows the use of management s best estimate of selling price for individual elements of an arrangement when vendor-specific objective evidence or third-party evidence is unavailable. Additionally, it eliminates the residual method of revenue recognition in accounting for multiple deliverable arrangements. The guidance is effective for fiscal years beginning on or after June 15, 2010 and early adoption is permitted. Ciena is currently evaluating the impact this new guidance could have on its financial condition, results of operations and cash flows.

In October 2009, the FASB amended the accounting standards for revenue arrangements with software elements. The amended guidance modifies the scope of the software revenue recognition guidance to exclude tangible products that contain both software and non-software components that function together to deliver the product s essential functionality. The pronouncement is effective for fiscal years beginning on or after June 15, 2010 and early adoption is permitted. This guidance must be adopted in the same period an entity adopts the amended revenue arrangements with multiple deliverables guidance described above. Ciena is currently evaluating the impact this new guidance could have on its financial condition, results of operations and cash flows.

(3) BUSINESS COMBINATIONS

Acquisition of MEN Business

On March 19, 2010, Ciena completed its acquisition of the MEN Business. Ciena believes that this transaction strengthens its position as a leader in next-generation, converged optical Ethernet networking and will accelerate the execution of its corporate and research and development strategies. Ciena believes that the additional geographic reach, expanded customer relationships, and broader portfolio of complementary network solutions derived from the acquisition will enable Ciena to better compete with larger equipment vendors.

In accordance with the agreements for the acquisition, the initial $773.8 million aggregate purchase price, which was payable in cash and convertible notes, was subsequently adjusted downward by $80.6 million based upon the amount of net working capital transferred to Ciena at closing. Prior to closing, Ciena elected to replace the $239.0 million in aggregate principal of convertible notes that were to be issued to Nortel as part of the aggregate purchase price with cash equivalent to 102% of the face amount of the notes replaced, or $243.8 million. Ciena completed a private placement of 4.0% Convertible Senior Notes due March 15, 2015 in aggregate principal amount of $375.0 million which funded this election and reduced the amount of cash on hand required to fund the aggregate purchase price. See Note 16 below. As a result, the aggregate purchase price was $693.2 million consisting entirely of cash.

Given the structure of the transaction as an asset carve-out from Nortel, Ciena expects that the transaction will result in a costly and complex integration with a number of operational risks. Ciena expects to incur approximately $180 million in costs associated with equipment and information technology, transaction expense, severance expense and consulting and third party service fees associated with the integration, with the majority of these costs to be incurred in fiscal 2010. In addition to these costs, Ciena has incurred inventory obsolescence charges and may incur additional expenses related to, among other things, facilities restructuring. As a result, the expense that Ciena incurs and recognizes for financial statement purposes will be significantly higher than the estimated costs above. As of July 31, 2010, Ciena has incurred $83.3 million in transaction, consulting and third party service fees, $4.0 million in severance expense, and an additional $10.8 million, primarily related to purchases of capitalized information technology equipment. In addition to the estimated costs above, Ciena also expects to incur significant transition services expense. Ciena is currently relying upon an affiliate of Nortel to perform certain critical operational and business support functions during an interim integration period. Ciena can utilize certain of these support services for a period of up to 24 months following the acquisition of the MEN Business, 12 months in Europe, Middle East and Africa, (EMEA). The cost of these transition services is estimated to be approximately $94 million annually. The actual expense will depend upon the scope of the services that Ciena utilizes and the time within which Ciena is able to complete the planned transfer of these services to internal resources or other third party providers.

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During fiscal 2010, Ciena adopted the new FASB guidance on business combinations. The acquisition of the MEN Business has been accounted for under the acquisition method of accounting which requires the total purchase price to be allocated to the assets acquired and liabilities assumed based on their estimated fair values. The fair values assigned to the assets acquired and liabilities assumed are based on valuations using management s best estimates and assumptions. The allocation of the purchase price as reflected in these consolidated financial statements is based on the best information available to management at the time these consolidated financial statements were issued and is preliminary pending the completion of the valuation analysis of selected assets and liabilities. During the measurement period (which is not to exceed one-year from the acquisition date), Ciena is required to retrospectively adjust the provisional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets or liabilities as of that date. The following table summarizes the initial measurement allocation of the purchase price, measurement period adjustments and the current measurement allocation related to the MEN Business based on the estimated fair value of the acquired assets and assumed liabilities (in thousands):

	Initial Measurement Allocation	Measurement Period Adjustment	Current Measurement Allocation
Unbilled receivables	$ 7,454	$ (271)	$ 7,183
Inventories	114,169	(107)	114,062
Prepaid expenses and other	32,517		32,517
Other long-term assets	21,821		21,821
Equipment, furniture and fixtures	45,351		45,351
Developed technology	218,774		218,774
In-process research and development	11,000		11,000
Customer relationships, outstanding purchase orders and contracts	257,964	2,283	260,247
Trade name	2,000		2,000
Goodwill	39,991	(1,905)	38,086
Deferred revenue	(18,801)		(18,801)
Accrued liabilities	(36,349)		(36,349)
Other long-term obligations	(2,644)		(2,644)
Total purchase price allocation	$ 693,247	$	$ 693,247

Any additional changes in the estimated fair value of the net assets during the remaining measurement period will change the amount of the purchase price allocable to goodwill and, if material, Ciena s consolidated financial results will be adjusted retroactively. Ciena is currently not aware of any significant potential changes to the current purchase price allocation.

Unbilled receivables represent unbilled claims for which Ciena will invoice customers upon its completion of the acquired projects.

Under the acquisition method of accounting, Ciena revalued the acquired finished goods inventory to fair value, which was determined to be most appropriately recognized as the estimated selling price less the sum of (a) costs of disposal, and (b) a reasonable profit allowance for Ciena s selling effort. This revaluation resulted in an increase in inventory carrying value of approximately $39.7 million for marketable inventory offset by a decrease of $2.5 million for unmarketable inventory.

Prepaid expenses and other include product demonstration units used to support research and development projects and indemnification assets related to uncertain tax contingencies acquired and recorded as part of other long-term obligations. Other long-term assets represent spares used to support customer maintenance commitments.

Developed technology represents purchased technology which has reached technological feasibility and for which development had been completed as of the date of the acquisition. Developed technology will be amortized on a straight line basis over its estimated useful lives of two to seven years.

In-process research and development represents development projects that had not reached technological feasibility at the time of the acquisition. In-process research and development assets will be impaired, if abandoned, or amortized in future periods, depending upon the ability of Ciena to use the research and development in future periods. Future expenditures to complete the in-process research and development projects will be expensed as incurred.

Customer relationships, outstanding purchase orders and contracts represent agreements with existing customers of the MEN Business. These intangible assets are expected to have estimated useful lives of nine months to seven years, with the exception of $14.2 million related to a contract asset for acquired in-process projects which will be billed in full by Ciena and recognized as a reduction in revenue within the next year. Trade name represents acquired product trade names which are expected to have a useful life of nine months.

Goodwill represents the purchase price in excess of the amounts assigned to acquired tangible or intangible assets and assumed liabilities. Amounts allocated to goodwill are tax deductible in all relevant jurisdictions. The goodwill is attributable to the assigned workforce of the MEN Business and the synergies expected to arise as a result of the acquisition.

Deferred revenue represents obligations assumed by Ciena to provide maintenance support services for which payment for such services was already made to Nortel.

Accrued liabilities represent assumed warranty obligations, other customer contract obligations, and certain employee benefit plans. Other long-term obligations represent uncertain tax contingencies.

The following unaudited pro forma financial information summarizes the results of operations for the periods indicated as if Ciena s acquisition of the MEN Business had been completed as of the beginning of each of the periods presented. Revenue specific to the MEN Business since the March 19, 2010 acquisition date was $275.3 million. As Ciena has begun to integrate the combined operations, eliminating overlapping processes and expenses and integrating its products and sales efforts with those of the acquired MEN Business, it is impractical to determine the earnings specific to the MEN Business since the acquisition date.

These pro forma amounts (in thousands) do not purport to be indicative of the results that would have actually been obtained if the acquisition occurred as of the beginning of the periods presented or that may be obtained in the future.

	Quarter Ended July 31,		Nine Months Ended July 31,	
	2009	2010	2009	2010
Pro forma revenue	$ 406,758	$ 393,843	$ 1,260,112	$ 1,174,719
Pro forma net loss	$ (127,845)	$ (77,080)	$ (859,305)	$ (463,150)

(4) GOODWILL

Goodwill

As a result of its acquisition of the MEN Business, Ciena recorded goodwill of $38.1 million. This goodwill was assigned to the Packet-Optical Transport reporting unit as that unit is expected to benefit from synergies of the combination.

The table below sets forth changes in the carrying amount of goodwill in each of our reporting units for the period indicated (in thousands):

	Packet-Optical Transport	Packet-Optical Switching	Carrier Ethernet Service Delivery	Software and Services	Total
Balance as of October 31, 2009	$	$	$	$	$
Acquired	38,086				38,086
Balance as of July 31, 2010	$38,086	$	$	$	$38,086

The table below sets forth changes in the carrying amount of goodwill for the period indicated (in thousands):

	Total

Balance as of October 31, 2008	$ 455,673
Impairment loss	(455,673)
Balance as of Julyl 31, 2009	$

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Goodwill Impairment

Prior to the acquisition of the MEN Business, Ciena assessed its goodwill based upon a single reporting unit and tested its single reporting unit s goodwill for impairment annually on the last business day of fiscal September each year. Testing is required between annual tests if events occur or circumstances change that would, more likely than not, reduce the fair value of the reporting unit below its carrying value. Based on a combination of factors, including macroeconomic conditions and a sustained decline in Ciena s common stock price and market capitalization below net book value, Ciena conducted an interim impairment assessment of goodwill during the second quarter of fiscal 2009. Ciena performed the step one fair value comparison, and its market capitalization was $721.8 million and its carrying value, including goodwill, was $949.0 million. Ciena applied a 25% control premium to its market capitalization to determine a fair value of $902.2 million. Because step one indicated that Ciena s fair value was less than its carrying value, Ciena performed the step two analysis. Under the step two analysis, the implied fair value of goodwill requires valuation of a reporting unit s tangible and intangible assets and liabilities in a manner similar to the allocation of purchase price in a business combination. If the carrying value of a reporting unit s goodwill exceeds its implied fair value, goodwill is deemed impaired and is written down to the extent of the difference. The implied fair value of the reporting unit s goodwill was determined to be $0, and, as a result, Ciena recorded a goodwill impairment of $455.7 million, representing the full carrying value of the goodwill.

(5) LONG-LIVED ASSET IMPAIRMENTS

Due to the reorganization described in Note 2 above, Ciena performed an impairment analysis of its long-lived assets during the second quarter of fiscal 2010. Based on Ciena s estimate of future, undiscounted cash flows by asset group, no impairment was required.

(6) RESTRUCTURING COSTS

In April 2010, Ciena committed to certain restructuring actions and subsequently effected a headcount reduction of approximately 70 employees, principally affecting Ciena s Global Product Group and Global Field Organization outside of the EMEA region. This action resulted in a restructuring charge of $1.8 million in the second quarter of fiscal 2010 and $0.3 million in the third quarter of fiscal 2010.

In May 2010, following the end of its fiscal second quarter, Ciena informed employees of its proposal to reorganize and restructure portions of Ciena s business and operations in the EMEA region, which is expected to involve the elimination of 120 to 140 roles with reductions expected to principally affect employees in Ciena s Global Field Organization and Global Supply Chain organization. Execution of any specific reorganization is subject to local legal requirements, including notification and consultation processes with employees and employee representatives. Ciena estimates completing the reorganization by the first half of calendar year 2011. Ciena expects total restructuring costs related to this action to range from $8.0 million to $10.0 million. During the third quarter of fiscal 2010, Ciena recorded expenses of $1.9 million related to the reduction in head count of approximately 26 employees in the Global Field Organization.

The following table sets forth the activity and balance of the restructuring liability accounts for the nine months ended July 31, 2010 (in thousands):

	Workforce reduction	Consolidation of excess facilities	Total
Balance at October 31, 2009	$ 170	$ 9,435	$ 9,605
Additional liability recorded	3,985		3,985
Cash payments	(2,476)	(2,098)	(4,574)
Balance at July 31, 2010	$ 1,679	$ 7,337	$ 9,016
Current restructuring liabilities	$ 1,679	$ 1,342	$ 3,021
Non-current restructuring liabilities	$	$ 5,995	$ 5,995

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The following table sets forth the activity and balance of the restructuring liability accounts for the nine months ended July 31, 2009 (in thousands):

	Workforce reduction	Consolidation of excess facilities	Total
Balance at October 31, 2008	$ 982	$ 3,243	$ 4,225
Additional liability recorded	4,098	6,318	10,416
Cash payments	(4,822)	(332)	(5,154)
Balance at July 31, 2009	$ 258	$ 9,229	$ 9,487
Current restructuring liabilities	$ 258	$ 1,659	$ 1,917
Non-current restructuring liabilities	$	$ 7,570	$ 7,570

(7) MARKETABLE SECURITIES

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

	July 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Publicly traded equity securities	$ 184	$	$	$ 184
	$ 184	$	$	$ 184
Included in short-term investments	$ 184			$ 184
Included in long-term investments				
	$ 184	$	$	$ 184

	October 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government obligations	$ 570,505	$ 460	$ 2	$ 570,963
Publicly traded equity securities	251			251
	$ 570,756	$ 460	$ 2	$ 571,214
Included in short-term investments	562,781	404	$ 2	563,183
Included in long-term investments	7,975	56		8,031
	$ 570,756	$ 460	$ 2	$ 571,214

Gross unrealized losses related to marketable debt investments, included in short-term and long-term investments, were primarily due to changes in interest rates. Ciena s management determined that the gross unrealized losses at October 31, 2009 were temporary in nature because Ciena had the ability and intent to hold these investments until a recovery of fair value, which may be maturity. There were no gross unrealized losses at July 31, 2010. As of October 31, 2009, gross unrealized losses were as follows (in thousands):

	October 31, 2009					
	Unrealized Losses Less Than 12 Months		Unrealized Losses 12 Months or Greater		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. government obligations	$ 2	$ 37,744	$	$	$ 2	$ 37,744
	$ 2	$ 37,744	$	$	$ 2	$ 37,744

(8) FAIR VALUE MEASUREMENTS

As of the date indicated, the following table summarizes the fair value of assets that are recorded at fair value on a recurring basis (in thousands):

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	July 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Embedded redemption feature	$	$	$ 4,280	$ 4,280
Publicly traded equity securities	184			184
Total assets measured at fair value	$ 184	$	$ 4,280	$ 4,464

As of the date indicated, the assets and liabilities above were presented on Ciena s Condensed Consolidated Balance Sheet as follows (in thousands):

	July 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Short-term investments	$ 184	$	$	$ 184
Other long-term assets			4,280	4,280
Total assets measured at fair value	$ 184	$	$ 4,280	$ 4,464

Ciena s Level 1 asset is a corporate equity security publicly traded on a major exchange that is valued using quoted prices in active markets.

Ciena s Level 3 asset reflects the embedded redemption feature contained within Ciena s 4.0% convertible senior notes. See Note 16 below. The embedded redemption feature is bifurcated from Ciena s 4.0% convertible senior notes using the with-and-without approach. As such, the total value of the embedded redemption feature is calculated as the difference between the value of the 4.0% convertible senior notes (the Hybrid Instrument) and the value of an identical instrument without the embedded redemption feature (the Host Instrument). Both the Host Instrument and the Hybrid Instrument are valued using a modified binomial model. The modified binomial model utilizes a risk free interest rate, an implied volatility of Ciena s stock, the recovery rates of bonds, and the implied default intensity of the 4.0% convertible senior notes.

As of the dates indicated, the following table sets forth, in thousands, the reconciliation of changes in Level 3 fair value measurements:

	Level 3
Balance at October 31, 2009	$
Issuances	1,710
Changes in unrealized gain (loss)	2,570
Transfers into Level 3	
Transfers out of Level 3	
Balance at July 31, 2010	$ 4,280

Fair value of outstanding convertible notes

At July 31, 2010, the fair value of the outstanding $500.0 million of 0.875% convertible senior notes, $375.0 million of 4.0% convertible senior notes and $298.0 million of 0.25% convertible senior notes was $337.5 million, $357.4 million and $264.9 million, respectively. Fair value for the 0.875% and the 0.25% convertible senior notes is based on the quoted market price for the notes on the date above. Due to the lack of trading activity, fair value of the 4.0% convertible senior notes is based on a modified binomial model as described above.

(9) ACCOUNTS RECEIVABLE

As of October 31, 2009, one customer accounted for 10.7% of net accounts receivable, and as of July 31, 2010, no customers accounted for greater than 10.0% of net accounts receivable.

Ciena s allowance for doubtful accounts receivable is based on management s assessment, on a specific identification basis, of the collectibility of customer accounts. As of October 31, 2009 and July 31, 2010, allowance for doubtful accounts was $0.1 million.

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(10) INVENTORIES

As of the dates indicated, inventories are comprised of the following (in thousands):

	October 31, 2009	July 31, 2010
Raw materials	$ 19,694	$ 26,606
Work-in-process	1,480	6,021
Finished goods	90,914	220,044
	112,088	252,671
Provision for excess and obsolescence	(24,002)	(30,507)
	$ 88,086	$ 222,164

Ciena writes down its inventory for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and the estimated market value, based on assumptions about future demand and market conditions. During the first nine months of fiscal 2010, Ciena recorded a provision for excess and obsolescence of $10.7 million, primarily due to product rationalization decisions in connection with the acquisition of the MEN Business. Deductions from the provision for excess and obsolete inventory relate to disposal activities. The following table summarizes the activity in Ciena s reserve for excess and obsolete inventory for the period indicated (in thousands):

	Inventory Reserve
Reserve balance as of October 31, 2009	$ 24,002
Provision for excess for obsolescence	10,749
Actual inventory disposed	(4,244)
Reserve balance as of July 31, 2010	$ 30,507

During the first nine months of fiscal 2009, Ciena recorded a provision for excess and obsolete inventory of $11.1 million, primarily related to changes in forecasted sales for certain products. Deductions from the provision for excess and obsolete inventory relate to disposal activities. The following table summarizes the activity in Ciena s reserve for excess and obsolete inventory for the period indicated (in thousands):

	Inventory Reserve
Reserve balance as of October 31, 2008	$ 23,257
Provision for excess and obsolescence	11,126
Actual inventory disposed	(12,837)
Reserve balance as of July 31, 2009	$ 21,546

(11) PREPAID EXPENSES AND OTHER

As of the dates indicated, prepaid expenses and other are comprised of the following (in thousands):

	October 31, 2009	July 31, 2010
Interest receivable	$ 993	$

Prepaid VAT and other taxes	14,527	43,845
Deferred deployment expense	4,242	6,797
Product demonstration equipment, net		28,573
Prepaid expenses	8,869	16,480
Capitalized acquisition costs	12,473	
Restricted cash	7,477	14,943
Other non-trade receivables	1,956	7,933
	$ 50,537	$ 118,571

Prepaid expenses and other as of July 31, 2010 include $28.6 million related to product demonstration equipment, net acquired as part of the MEN Business. Depreciation of product demonstration equipment was $2.3 million for the first nine months of fiscal 2010. Capitalized acquisition costs at October 31, 2009 include direct costs related to Ciena s then pending acquisition of the MEN Business. In the first quarter of fiscal 2010, Ciena adopted newly issued accounting guidance related to business combinations, which required the full amount of these capitalized acquisition costs to be expensed in the Condensed Consolidated Statement of Operations.

(12) EQUIPMENT, FURNITURE AND FIXTURES

As of the dates indicated, equipment, furniture and fixtures are comprised of the following (in thousands):

	October 31, 2009	July 31, 2010
Equipment, furniture and fixtures	$ 293,093	$ 353,752
Leasehold improvements	45,761	48,907
	338,854	402,659
Accumulated depreciation and amortization	(276,986)	(283,904)
	$ 61,868	$ 118,755

Depreciation of equipment, furniture and fixtures, and amortization of leasehold improvements was $16.3 million and $25.8 million for the first nine months of fiscal 2009 and 2010, respectively.

(13) OTHER INTANGIBLE ASSETS

As of the dates indicated, other intangible assets are comprised of the following (in thousands):

		October 31, 2009			July 31, 2010	
	Gross Intangible	Accumulated Amortization	Net Intangible	Gross Intangible	Accumulated Amortization	Net Intangible
Finite-lived intangibles:						
Developed technology	$ 185,833	$ (147,504)	$ 38,329	$ 406,833	$ (173,694)	$ 233,139
Patents and licenses	47,370	(42,811)	4,559	45,388	(44,868)	520
Customer relationships, covenants not to compete, outstanding purchase orders and contracts	60,981	(43,049)	17,932	323,228	(97,277)	225,951
Total finite-lived intangibles	294,184	(233,364)	60,820	775,449	(315,839)	459,610
Indefinite-lived intangibles:						
In-process research and development				11,000		11,000
Total indefinite-lived intangibles				11,000		11,000
Total other intangible assets	$ 294,184	$ (233,364)	$ 60,820	$ 786,449	$ (315,839)	$ 470,610

The amortization expense of finite-lived other intangible assets was $23.8 million and $72.6 million for the first nine months of fiscal 2009 and 2010, respectively. In addition, during the first nine months of fiscal 2010, revenue was reduced by $9.9 million related to the amortization of contract assets from the acquisition of the MEN Business.

In-process research and development assets are impaired, if abandoned, or amortized in future periods, depending upon the ability of Ciena to use the research and development in future periods. See Note 3 above for information pertaining to newly acquired intangible assets related to the MEN Business. Expected future amortization of finite-lived other intangible assets for the fiscal years indicated is as follows (in thousands):

Period ended October 31,	
2010 (remaining three months)	$ 47,661
2011	91,373
2012	71,993
2013	69,573
2014	55,415
Thereafter	123,595
	$ 459,610

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(14) OTHER BALANCE SHEET DETAILS

As of the dates indicated, other long-term assets are comprised of the following (in thousands):

	October 31, 2009	July 31, 2010
Maintenance spares inventory, net	$ 31,994	$ 53,237
Restricted cash	18,792	30,172
Deferred debt issuance costs, net	12,832	20,904
Embedded redemption feature		4,280
Investments in privately held companies	907	907
Other	3,377	3,087
	$ 67,902	$ 112,587

Deferred debt issuance costs are amortized using the straight line method which approximates the effect of the effective interest rate method on the maturity of the related debt. Amortization of debt issuance costs, which is included in interest expense, was $1.7 million and $2.6 million during the first nine months of fiscal 2009 and fiscal 2010, respectively.

As of the dates indicated, accrued liabilities are comprised of the following (in thousands):

	October 31, 2009	July 31, 2010
Warranty	$ 40,196	$ 64,510
Compensation, payroll related tax and benefits	20,025	29,906
Vacation	11,508	17,706
Interest payable	2,045	6,370
Other	29,575	59,935
	$ 103,349	$ 178,427

The following table summarizes the activity in Ciena s accrued warranty for the fiscal periods indicated (in thousands):

Nine months ended July 31,	Beginning Balance	Acquired	Provisions	Settlements	Balance at end of period
2009	$ 37,258		13,620	(11,498)	$ 39,380
2010	$ 40,196	26,000	16,388	(18,074)	$ 64,510

As of the dates indicated, deferred revenue is comprised of the following (in thousands):

	October 31, 2009	July 31, 2010
Products	$ 11,998	$ 15,132
Services	63,935	75,645
	75,933	90,777
Less current portion	(40,565)	(58,655)

Long-term deferred revenue	$ 35,368	$ 32,122

(15) FOREIGN CURRENCY FORWARD CONTRACTS

Ciena has previously used, and may in the future use, foreign currency forward contracts to reduce variability in non-U.S. dollar denominated operating expenses. Ciena uses these derivatives to partially offset its market exposure to fluctuations in certain foreign currencies. These derivatives are designated as cash flow hedges. The effective portion of the derivative s gain or loss is initially reported as a component of accumulated other comprehensive income (loss) and, upon occurrence of the forecasted transaction, is subsequently reclassified into the operating expense line item to which the hedged transaction relates. Ciena records the ineffective portion of the hedging instruments in interest and other income, net. As of October 31, 2009 and July 31, 2010, there were no foreign currency forward contracts outstanding and Ciena did not enter into any foreign currency forward contracts during the first nine months of fiscal 2010.

Ciena s foreign currency forward contracts are classified as follows (in thousands):

Line Item in Condensed Consolidated Statement of Operations	Reclassified to Condensed Consolidated Statement of Operations (Effective Portion) Quarter Ended July 31, 2009	2010	Nine Months Ended July 31, 2009	2010
Research and development	$ (283)	$	$ 21	$
Selling and marketing	(692)		46	
	$ (975)	$	$ 67	$

Line Item in Condensed Consolidated Balance Sheet	Recognized in Other Comprehensive Income (Loss) Quarter Ended July 31, 2009	2010	Recognized in Other Comprehensive Income (Loss) Nine Months Ended July 31, 2009	2010
Accumulated other comprehensive income (loss)	$ 2,904	$	$ 1,420	$
	$ 2,904	$	$ 1,420	$

Line Item in Condensed Consolidated Statement of Operations	Ineffective Portion Quarter Ended July 31, 2009	2010	Ineffective Portion Nine Months Ended July 31, 2009	2010
Interest and other income, net	$	$	$	$
	$	$	$	$

(16) CONVERTIBLE NOTES PAYABLE

Ciena 4.0% Convertible Senior Notes, due March 15, 2015

On March 15, 2010, Ciena completed a private placement of 4.0% convertible senior notes due March 15, 2015, in aggregate principal amount of $375.0 million (the Notes). Interest is payable on the Notes on March 15 and September 15 of each year, beginning on September 15, 2010. The Notes are senior unsecured obligations of Ciena and rank equally with all of Ciena s other existing and future senior unsecured debt.

At the election of the holder, the Notes may be converted prior to maturity into shares of Ciena common stock at the initial conversion rate of 49.0557 shares per $1,000 in principal amount, which is equivalent to an initial conversion price of approximately $20.38 per share. The Notes may be redeemed by Ciena on or after March 15, 2013 if the closing sale price of Ciena s common stock for at least 20 trading days in any 30 consecutive trading day period ending on the date one day prior to the date of the notice of redemption exceeds 150% of the conversion price. Ciena may redeem the Notes in whole or in part, at a redemption price in cash equal to the principal amount to be redeemed, plus accrued and unpaid interest, including any additional interest to, but excluding, the redemption date, plus a make-whole premium payment. The make whole premium payment will be made in cash and equal the present value of the remaining interest payments, to maturity, computed using a discount rate equal to 2.75%. The make-whole premium is paid to holders whether or not they convert the Notes following Ciena s issuance of a redemption notice. For accounting purposes, this redemption feature is an embedded derivative that is not clearly and closely related to the Notes. Consequently, it was initially bifurcated from the indenture and separately recorded at its fair value as an asset with subsequent changes in fair value recorded through earnings. As of July 31, 2010, the fair value of the embedded redemption feature was $4.3 million and is included in other long-term assets on the Condensed Consolidated Balance Sheet. Since inception on March 15, 2010, the changes in fair value of the embedded redemption feature in the amount of $2.6 million were reflected as interest and other income (loss), net on the Condensed Consolidated Statement of Operations.

The shares of common stock issuable upon conversion of the Notes have not been registered for resale on a shelf registration statement. In some instances, Ciena s failure to timely file periodic reports with the SEC or remove restrictive legends on the Notes may require it to pay additional interest on the Notes; which will accrue at the rate of 0.50% per annum of the principal amount of Notes outstanding for each day such failure to file or to remove the restrictive legend has occurred and is continuing.

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

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The indenture governing the Notes provides for customary events of default which include (subject in certain cases to customary grace and cure periods), among others, the following: nonpayment of principal or interest; breach of covenants or other agreements in the Indenture; defaults in failure to pay certain other indebtedness; and certain events of bankruptcy or insolvency. Generally, if an event of default occurs and is continuing, the trustee or the holders of at least 25% in aggregate principal amount of the Notes may declare the principal of, accrued interest on, and premium, if any, on all the Notes immediately due and payable.

The net proceeds from the offering of the Notes were $364.3 million after deducting the placement agents fees and other fees and expenses. Ciena used $243.8 million of this amount to fund its payment election to replace its contractual obligation to issue convertible notes to Nortel as part of the aggregate purchase price for the acquisition of the MEN Business. The remaining proceeds were used to reduce the cash on hand required to fund the aggregate purchase price of the MEN Business. See Note 3 above.

(17) EARNINGS (LOSS) PER SHARE CALCULATION

The following table (in thousands except per share amounts) is a reconciliation of the numerator and denominator of the basic net income (loss) per common share (Basic EPS) and the diluted net income (loss) per potential common share (Diluted EPS). Basic EPS is computed using the weighted average number of common shares outstanding. Diluted EPS is computed using the weighted average number of (i) common shares outstanding, (ii) shares issuable upon vesting of restricted stock units, (iii) shares issuable upon exercise of outstanding stock options, employee stock purchase plan options and warrants using the treasury stock method; and (iv) shares underlying Ciena s outstanding convertible notes.

	Quarter Ended July 31,		Nine Months Ended July 31,	
Numerator	2009	2010	2009	2010
Net loss	$ (26,454)	$ (109,855)	$ (554,495)	$ (253,197)
Add: Interest expense for 0.250% convertible senior notes				
Add: Interest expense for 4.000% convertible senior notes				
Add: Interest expense for 0.875% convertible senior notes				
Net loss used to calculate diluted EPS	$ (26,454)	$ (109,855)	$ (554,495)	$ (253,197)

	Quarter Ended July 31,		Nine Months Ended July 31,	
Denominator	2009	2010	2009	2010
Basic weighted average shares outstanding	91,364	92,906	90,970	92,851
Add: Shares underlying outstanding stock options, employees stock purchase plan options, warrants and restricted stock units				
Add: Shares underlying 0.250% convertible senior notes				
Add: Shares underlying 4.000% convertible senior notes				
Add: Shares underlying 0.875% convertible senior notes				
Dilutive weighted average shares outstanding	91,364	92,906	90,970	92,851

	Quarter Ended July 31,		Nine Months Ended July 31,	
EPS	2009	2010	2009	2010
Basic EPS	$ (0.29)	$ (1.18)	$ (6.10)	$ (2.73)
Diluted EPS	$ (0.29)	$ (1.18)	$ (6.10)	$ (2.73)

Explanation of Shares Excluded due to Anti-Dilutive Effect

For the quarters and nine months ended July 31, 2009 and July 31, 2010, the weighted average number of shares underlying outstanding stock options, employee stock purchase plan options, restricted stock units, and warrants set forth in the table below are considered anti-dilutive because Ciena incurred a net loss. In addition, the shares, representing the weighted average number of shares issuable upon conversion of Ciena s outstanding convertible senior notes, are considered anti-dilutive because the related interest expense on a per common share if converted basis exceeds Basic EPS for the period.

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

	Quarter Ended July 31,		Nine Months Ended July 31,	
Shares excluded from EPS Denominator due to anti-dilutive effect	2009	2010	2009	2010
Shares underlying stock options, restricted stock units and warrants	8,249	7,171	8,161	8,171
0.25% convertible senior notes	7,539	7,539	7,539	7,539
4.0% convertible senior notes		18,396		9,333
0.875% convertible senior notes	13,108	13,108	13,108	13,108
Total excluded due to anti-dilutive effect	28,896	46,214	28,808	38,151

(18) SHARE-BASED COMPENSATION EXPENSE

Ciena grants equity awards under its 2008 Omnibus Incentive Plan (2008 Plan) and 2003 Employee Stock Purchase Plan (ESPP). These plans were approved by shareholders and are described in Ciena s annual report on Form 10-K. In connection with its acquisition of the MEN Business, Ciena also adopted the 2010 Inducement Equity Award Plan, pursuant to which it has made awards to eligible persons as described below.

2008 Plan

Ciena has previously granted stock options and restricted stock units under its 2008 Plan. Pursuant to Board and stockholder approval, effective April 14, 2010, Ciena amended its 2008 Plan to (i) increase the number of shares available for issuance by five million shares; and (ii) reduce from 1.6 to 1.31 the fungible share ratio used for counting full value awards, such as restricted stock units, against the shares remaining available under the 2008 Plan. As of July 31, 2010, there were approximately 5.8 million shares authorized and remaining available for issuance under the 2008 Plan.

2010 Inducement Equity Award Plan

On December 8, 2009, the Compensation Committee of the Board of Directors approved the 2010 Inducement Equity Award Plan (the 2010 Plan). The 2010 Plan is intended to enhance Ciena s ability to attract and retain certain key employees transferred to Ciena in connection with its acquisition of the MEN Business. The 2010 Plan authorizes the issuance of restricted stock or restricted stock units representing up to 2.25 million shares of Ciena common stock. Upon the March 19, 2011 termination of the 2010 Plan, any shares then remaining available shall cease to be available for issuance under the 2010 Plan or any other existing Ciena equity incentive plan. As of July 31, 2010, there were approximately 0.7 million shares authorized and available for issuance under the 2010 Plan.

Stock Options

Outstanding stock option awards to employees are generally subject to service-based vesting restrictions and vest incrementally over a four-year period. The following table is a summary of Ciena s stock option activity for the periods indicated (shares in thousands):

	Shares Underlying Options Outstanding	Weighted Average Exercise Price
Balance as of October 31, 2009	5,538	$ 45.80
Granted	84	12.40
Exercised	(90)	5.09
Canceled	(427)	85.01
Balance as of July 31, 2010	5,105	$ 42.68

The total intrinsic value of options exercised during the first nine months of fiscal 2009 and fiscal 2010, was $0.5 million and $0.8 million, respectively. The weighted average fair values of each stock option granted by Ciena during the first nine months of fiscal 2009 and fiscal 2010 were $4.66 and $6.95, respectively.

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The following table summarizes information with respect to stock options outstanding at July 31, 2010, based on Ciena s closing stock price of $13.09 per share on the last trading day of Ciena s third fiscal quarter of 2010 (shares and intrinsic value in thousands):

		Options Outstanding at July 31, 2010				Vested Options at July 31, 2010			
Range of Exercise Price		Number of Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number of Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value
$ 0.01	$ 16.52	876	6.44	$ 11.10	$ 2,910	633	5.53	$ 11.48	$ 2,177
$ 16.53	$ 17.43	518	5.23	17.21		483	5.02	17.21	
$ 17.44	$ 22.96	435	4.66	21.75		401	4.41	21.85	
$ 22.97	$ 31.71	1,438	4.45	29.43		1,313	4.18	29.54	
$ 31.72	$ 46.90	878	5.74	39.42		697	5.32	39.87	
$ 46.91	$ 73.78	439	2.33	59.62		439	2.33	59.62	
$ 73.79	$ 1,046.50	521	1.13	166.31		521	1.13	166.31	
$ 0.01	$ 1,046.50	5,105	4.59	$ 42.68	$ 2,910	4,487	4.12	$ 45.41	$ 2,177

Assumptions for Option-Based Awards

Ciena recognizes the fair value of service-based options as share-based compensation expense on a straight-line basis over the requisite service period. Ciena estimates the fair value of each option award on the date of grant using the Black-Scholes option-pricing model, with the following weighted average assumptions:

	Quarter Ended July 31,		Nine Months Ended July 31,	
	2009	2010	2009	2010
Expected volatility	65.0%	61.9%	65.0%	61.9%
Risk-free interest rate	2.8 3.1%	2.4%	1.7 3.1%	2.4 3.0%
Expected life (years)	5.2 5.3	5.3 5.5	5.2 5.3	5.3 5.5
Expected dividend yield	0.0%	0.0%	0.0%	0.0%

Ciena considered the implied volatility and historical volatility of its stock price in determining its expected volatility, and, finding both to be equally reliable, determined that a combination of both would result in the best estimate of expected volatility.

The risk-free interest rate assumption is based upon observed interest rates appropriate for the expected term of Ciena s employee stock options.

The expected life of employee stock options represents the weighted-average period during which the stock options are expected to remain outstanding. Ciena gathered detailed historical information about specific exercise behavior of its grantees, which it used to determine the expected term.

The dividend yield assumption is based on Ciena s history of not making dividends and its expectation of future dividend payouts.

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

Restricted Stock Units

A restricted stock unit is a stock award that entitles the holder to receive shares of Ciena common stock as the unit vests. Ciena s outstanding restricted stock unit awards are subject to service-based vesting conditions and/or performance-based vesting conditions. Awards subject to service-based conditions typically vest in increments over a three to four year period.

Awards with performance-based vesting conditions require the achievement of certain operational, financial or other performance criteria or targets as a condition of vesting, or acceleration of vesting, of such awards.

Ciena s outstanding restricted stock units include performance-accelerated restricted stock units (PARS), which vest in full four years after the date of grant (assuming that the grantee is still employed by Ciena at that time). Under the PARS, the Compensation Committee may establish performance targets which, if satisfied, provide for the acceleration of vesting of that portion of the award designated by the Compensation Committee. As a result, the grantee may have the opportunity, subject to satisfaction of performance conditions, to vest as to the entire award prior to the expiration of the four-year period above. Ciena recognizes the estimated fair value of performance-based awards, net of estimated forfeitures, as share-based expense over the performance period, using graded vesting, which considers each performance period or tranche separately, based upon Ciena s determination of whether it is probable that the performance targets will be achieved. At each reporting period, Ciena reassesses the probability of achieving the performance targets and the performance period required to meet those targets.

The aggregate intrinsic value of Ciena s restricted stock units is based on Ciena s closing stock price on the last trading day of each period as indicated. The following table is a summary of Ciena s restricted stock unit activity for the periods indicated, with the aggregate intrinsic value of the balance outstanding at the end of each period, based on Ciena s closing stock price on the last trading day of the relevant period (shares and aggregate intrinsic value in thousands):

	Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value
Balance as of October 31, 2009	3,716	$ 14.67	$ 43,591
Granted	3,489		
Vested	(1,407)		
Canceled or forfeited	(172)		
Balance as of July 31, 2010	5,626	$ 13.76	$ 73,648

The total fair value of restricted stock units that vested and were converted into common stock during the first nine months of fiscal 2009 and fiscal 2010 was $7.7 million and $19.0 million, respectively. The weighted average fair value of each restricted stock unit granted by Ciena during the first nine months of fiscal 2009 and fiscal 2010 was $6.97 and $13.43, respectively.

Assumptions for Restricted Stock Unit Awards

The fair value of each restricted stock unit award is estimated using the intrinsic value method, which is based on the closing price on the date of grant. Share-based expense for service-based restricted stock unit awards is recognized, net of estimated forfeitures, ratably over the vesting period on a straight-line basis.

Share-based expense for performance-based restricted stock unit awards, net of estimated forfeitures, is recognized ratably over the performance period based upon Ciena s determination of whether it is probable that the performance targets will be achieved. At each reporting period, Ciena reassesses the probability of achieving the performance targets and the performance period required to meet those targets. The estimation of whether the performance targets will be achieved involves judgment, and the estimate of expense is revised periodically based on the probability of achieving the performance targets. Revisions are reflected in the period in which the estimate is changed. If any performance goals are not met, no compensation cost is ultimately recognized against that goal and, to the extent previously recognized, compensation cost is reversed.

2003 Employee Stock Purchase Plan

The ESPP is a non-compensatory plan and issuances thereunder do not result in share-based compensation expense. The following table is a summary of ESPP activity and shares available for issuance for the periods indicated (shares in thousands):

	ESPP shares available for issuance	Intrinsic value at exercise date
Balance as of October 31, 2009	3,469	
Evergreen provision	102	
Issued March 15, 2010	(33)	$ 26
Balance as of July 31, 2010	3,538	

Share-Based Compensation Expense for Periods Reported

The following table summarizes share-based compensation expense for the periods indicated (in thousands):

	Quarter Ended July 31,		Nine Months Ended July 31,	
	2009	2010	2009	2010
Product costs	$ 460	$ 548	$ 1,618	$ 1,475
Service costs	419	432	1,241	1,315
Share-based compensation expense included in cost of sales	879	980	2,859	2,790
Research and development	2,431	2,302	7,814	6,948
Sales and marketing	2,640	2,902	8,028	8,025
General and administrative	2,621	2,473	7,813	7,349
Acquisition and integration costs		883		1,229
Share-based compensation expense included in operating expense	7,692	8,560	23,655	23,551
Share-based compensation expense capitalized in inventory, net	(87)	111	(439)	110
Total share-based compensation	$ 8,484	$ 9,651	$ 26,075	$ 26,451

As of July 31, 2010, total unrecognized compensation expense was $72.4 million: (i) $7.0 million, which relates to unvested stock options and is expected to be recognized over a weighted-average period of 0.9 years; and (ii) $65.4 million, which relates to unvested restricted stock units and is expected to be recognized over a weighted-average period of 1.6 years.

(19) COMPREHENSIVE LOSS

The components of comprehensive loss were as follows for the periods indicated (in thousands):

	Quarter Ended July 31,		Nine Months Ended July 31,	
	2009	2010	2009	2010
Net loss	$ (26,454)	$ (109,855)	$ (554,495)	$ (253,197)

Change in unrealized gain (loss) on available-for-sale securities	(270)		1,407	(458)
Change in unrealized gain on foreign forward contracts	1,334		892	
Change in accumulated translation adjustments	756	(728)	763	(1,263)
Total comprehensive loss	$ (24,634)	$ (110,583)	$ (551,433)	$ (254,918)

(20) SEGMENT AND ENTITY WIDE DISCLOSURES

Segment Reporting

Effective upon the March 19, 2010 completion of Ciena s acquisition of the MEN Business, Ciena reorganized its internal organizational structure and the management of its business. Ciena s chief operating decision maker, its chief executive officer, evaluates performance and allocates resources based on multiple factors, including segment profit (loss) information for the following product categories:

Packet-Optical Transport includes optical transport solutions that increase network capacity and enable delivery of a broader mix of high-bandwidth services. These products are used by network operators to facilitate the cost effective and efficient transport of voice, video and data traffic in core networks, as well as regional, metro and access networks. Ciena s principal products in this segment include its Optical Multiservice Edge 6500 (OME 6500); Optical Multiservice Edge 6110 (OME 6110); Optical Metro 5200 (OM5200); Common Photonic Layer (CPL); Optical Multiservice Edge 1000 series; and Optical Metro 3500 (OM 3500). It includes sales of our CN 4200 FlexSelect Advanced Services Platform and our Corestream® Agility Optical Transport System. This segment also includes sales from legacy SONET/SDH products and legacy data networking products, as well as certain enterprise-oriented transport solutions that support storage and LAN extension, interconnection of data centers, and virtual private networks. This segment also includes operating system software and enhanced software features embedded in each of these products.

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Packet-Optical Switching includes optical switching platforms that enable automated optical infrastructures for the delivery of a wide variety of enterprise and consumer-oriented network services. Ciena s principal products in this segment include its CoreDirector® Multiservice Optical Switch; CoreDirector FS; and the 5430 Reconfigurable Switching System. These products include multiservice, multi-protocol switching systems that consolidate the functionality of an add/drop multiplexer, digital cross-connect and packet switch into a single, high-capacity intelligent switching system. These products address both the core and metro segments of communications networks and support key managed service services, Ethernet/TDM Private Line, Triple Play and IP services. This segment also includes sales of operating system software and enhanced software features