CIENA CORP
Form 10-Q
June 04, 2009

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 April 30, 2009

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 o 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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (do not check if a 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 May 29, 2009
common stock, $.01 par value	91,150,128

CIENA CORPORATION
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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 April 30,		Six Months Ended April 30,	
	2008	2009	2008	2009
Revenues:				
Products	$ 216,181	$ 118,849	$ 417,971	$ 258,566
Services	26,018	25,352	51,644	53,035
Total revenue	242,199	144,201	469,615	311,601
Costs:				
Products	96,041	65,419	187,428	141,786
Services	18,562	18,062	38,022	37,252
Total cost of goods sold	114,603	83,481	225,450	179,038
Gross profit	127,596	60,720	244,165	132,563
Operating expenses:				
Research and development	44,628	49,482	80,072	96,182
Selling and marketing	38,591	33,295	72,199	67,114
General and administrative	16,650	12,615	39,278	24,200
Amortization of intangible assets	8,760	6,224	15,230	12,628
Restructuring cost		6,399		6,475
Goodwill impairment		455,673		455,673
Total operating expenses	108,629	563,688	206,779	662,272
Income (loss) from operations	18,967	(502,968)	37,386	(529,709)
Interest and other income, net	8,487	3,508	27,569	8,168
Interest expense	(1,861)	(1,852)	(9,219)	(3,696)
Loss on cost method investments		(2,570)		(3,135)
Income (loss) before income taxes	25,593	(503,882)	55,736	(528,372)
Provision (benefit) for income taxes	1,833	(672)	3,169	(331)
Net income (loss)	$ 23,760	$ (503,210)	$ 52,567	$ (528,041)
Basic net income (loss) per common share	$ 0.27	$ (5.53)	$ 0.60	$ (5.82)
Diluted net income (loss) per potential common share	$ 0.23	$ (5.53)	$ 0.51	$ (5.82)

Weighted average basic common shares outstanding	89,102	90,932	88,155	90,777
Weighted average dilutive potential common shares outstanding	110,770	90,932	110,046	90,777

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

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

	October 31, 2008	April 30, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 550,669	$ 583,481
Short-term investments	366,336	482,294
Accounts receivable, net	138,441	116,671
Inventories	93,452	91,269
Prepaid expenses and other	35,888	26,439
Total current assets	1,184,786	1,300,154
Long-term investments	156,171	
Equipment, furniture and fixtures, net	59,967	60,099
Goodwill	455,673	
Other intangible assets, net	92,249	76,319
Other long-term assets	75,748	74,520
Total assets	$ 2,024,594	$ 1,511,092
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 44,761	$ 32,488
Accrued liabilities	96,143	95,876
Restructuring liabilities	1,668	3,151
Deferred revenue	36,767	42,974
Total current liabilities	179,339	174,489
Long-term deferred revenue	37,660	35,025
Long-term restructuring liabilities	2,557	4,712
Other long-term obligations	8,089	8,586
Convertible notes payable	798,000	798,000
Total liabilities	1,025,645	1,020,812
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; 90,470,803 and 91,149,198 shares issued and outstanding	905	911

Additional paid-in capital	5,629,498	5,647,622
Accumulated other comprehensive loss	(1,275)	(33)
Accumulated deficit	(4,630,179)	(5,158,220)
Total stockholders equity	998,949	490,280
Total liabilities and stockholders equity	$ 2,024,594	$ 1,511,092

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

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

	Six Months Ended April 30,	
	2008	2009
Cash flows from operating activities:		
Net income (loss)	$ 52,567	$ (528,041)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of discount on marketable securities	(1,632)	(904)
Non-cash loss on cost method investments		3,135
Depreciation and amortization of leasehold improvements	8,567	10,830
Impairment of goodwill		455,673
Share-based compensation	15,752	17,591
Amortization of intangibles	17,165	15,930
Deferred tax provision	1,296	
Provision for doubtful accounts	55	42
Provision for inventory excess and obsolescence	10,540	8,809
Provision for warranty	7,083	9,235
Other	2,373	1,129
Changes in assets and liabilities:		
Accounts receivable	(25,990)	21,728
Inventories	(20,456)	(6,626)
Prepaid expenses and other	5,816	6,253
Accounts payable, accruals and other obligations	7,883	(16,371)
Income taxes payable	(5,656)	
Deferred revenue	13,202	3,572
Net cash provided by operating activities	88,565	1,985
Cash flows from investing activities:		
Payments for equipment, furniture, fixtures and intellectual property	(14,172)	(12,632)
Restricted cash	(4,929)	(109)
Purchase of available for sale securities		(719,165)
Proceeds from maturities of available for sale securities	762,150	239,072
Proceeds from sale of available for sale securities		523,137
Acquisition of business, net of cash acquired	(209,965)	
Net cash provided by investing activities	533,084	30,303
Cash flows from financing activities:		
Repayment of 3.75% convertible notes payable	(542,262)	
Repayment of indebtedness of acquired business	(12,363)	
Proceeds from issuance of common stock and warrants	4,578	539
Net cash (used in) provided by financing activities	(550,047)	539

Effect of exchange rate changes on cash and cash equivalents	189	(15)
Net increase in cash and cash equivalents	71,602	32,827
Cash and cash equivalents at beginning of period	892,061	550,669
Cash and cash equivalents at end of period	$ 963,852	$ 583,481
Supplemental disclosure of cash flow information		
Cash paid (refunded) during the period for:		
Interest	$ 13,159	$ 2,560
Income taxes, net	$ 1,598	$ (281)
Non-cash investing and financing activities		
Purchase of equipment in accounts payable	$ 1,923	$ 605
Value of common stock issued in acquisition	$ 62,359	$
Fair value of vested options assumed in acquisition	$ 9,912	$

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

CIENA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(1) INTERIM FINANCIAL STATEMENTS

The interim financial statements included herein for Ciena Corporation (Ciena) have been prepared by Ciena, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, financial statements included in this report reflect all normal recurring adjustments that Ciena considers necessary for the fair statement of the results of operations for the interim periods covered and of the financial position of Ciena at the date of the interim balance 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, 2008 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, 2008.

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 generally represent investments in marketable debt securities. These 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.

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.

Equipment, Furniture and Fixtures

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Equipment, furniture and fixtures are recorded at cost. Depreciation and amortization are computed using the straight-line method over useful lives of two to five years for equipment, furniture and fixtures and the shorter of useful life or lease term for leasehold improvements. Impairments of equipment, furniture and fixtures are determined in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

Internal use software and web site development costs are capitalized in accordance with Statement of Position (SOP) No. 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, and Emerging Issues Task Force (EITF) Issue No. 00-2, Accounting for Web Site Development Costs. Qualifying costs incurred during the application development stage, which consist primarily of outside services and purchased software license costs, are capitalized and amortized straight-line over the estimated useful life of the asset.

Goodwill and Other Intangible Assets

Historically, Ciena has recorded goodwill and purchased intangible assets as a result of several acquisitions. Ciena accounts for goodwill in accordance with SFAS 142, Goodwill and Other Intangible Assets, which requires Ciena to test each reporting unit s goodwill for impairment on an annual basis, which Ciena has determined to be the last business day of 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. Ciena operates its business and tests its goodwill for impairment as a single reporting unit. As of April 30, 2009 Ciena had no goodwill remaining on its balance sheet. See Note 4 below.

Purchased finite-lived intangible assets are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the economic lives of the respective assets, generally three to seven years, which approximates the use of the intangible assets. Impairments of finite-lived intangible assets are determined in accordance with SFAS 144.

Minority Equity Investments

Ciena carries minority equity investments at cost where Ciena owns less than 20% of the voting equity and does not have the ability to exercise significant influence over the company. These types of investments are inherently high risk investments as the market for technologies or products manufactured by these companies are usually early stage at the time of 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. See Note 7 below.

Concentrations

Substantially all of Ciena s cash and cash equivalents and short-term and long-term investments in marketable debt securities are maintained at three 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 8 and 18 below.

Additionally, Ciena s access to certain raw materials is dependent upon sole or limited source suppliers. The inability of any supplier to fulfill Ciena s supply requirements could adversely affect future results. Ciena relies on a small number of third party manufacturers, principally in China and Thailand, to perform the majority of the manufacturing for its products. Ciena is therefore exposed to risks related to the business and financial position of its manufacturers, as well as risks related to their business continuity and disaster recovery plans, that may adversely affect access to continued manufacturing capability.

Revenue Recognition

Ciena recognizes revenue in accordance with Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition, which states that revenue is realized or realizable and earned when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the price to the buyer is fixed or determinable; and

collectibility is reasonably assured. 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. In instances where final acceptance of the product, system, or solution is specified by the customer, revenue is deferred until all acceptance criteria have been met. Revenue for maintenance services is generally deferred and recognized ratably over the period during which the services are to be performed.

Some of Ciena s communications networking equipment is integrated with software that is essential to the functionality of the equipment. Accordingly, Ciena accounts for revenue from such equipment in accordance with Statement of Position No. 97-2, Software Revenue Recognition, (SOP 97-2) and all related interpretations. SOP 97-2 incorporates additional guidance unique to software arrangements incorporated with general revenue recognition criteria, such as: 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 all acceptance criteria have been met.

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 applies the provisions of SOP 97-2 to determine the amount of 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 applies the provisions of Emerging Issues Task Force (EITF) No. 00-21, Revenue Arrangements with Multiple Deliverables. EITF 00-21 allows for separation of 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 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.

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.

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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 accounts for share-based compensation expense in accordance with SFAS 123(R), as interpreted by SAB 107. SFAS 123(R) requires the measurement and recognition of 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 only service-based vesting or the graded-vesting method, which considers each performance period or tranche separately, for all other awards. See Note 16 below.

Income Taxes

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

Ciena adopted the provisions of FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, (FIN 48) at the beginning of fiscal 2008. The amount of unrecognized tax benefits determined in accordance with FIN 48 increased by $0.2 million during the second quarter of fiscal 2009 to $5.7 million, which includes $1.2 million of interest and some minor penalties. All of the uncertain tax positions, if recognized, would decrease the effective income tax rate.

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.

For those Ciena assets and liabilities that are recorded at fair value on a recurring basis, fair value is determined in accordance with SFAS 157, Fair Value Measurements, which was adopted during the first quarter of fiscal 2009. SFAS 157 defines fair value, establishes a framework for measuring fair value, and enhances fair value measurement disclosure. See Note 7 below. In accordance with FASB Staff Position 157-2, Effective Date of FASB Statement No. 157, Ciena has not yet adopted SFAS 157 for all non-financial assets and non-financial liabilities.

For those Ciena assets and liabilities that were not previously required to be measured at fair value, Ciena has not elected the fair value option in accordance with SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115.

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 with U.S. dollars. For those subsidiaries using the local currency as their functional currency, assets and liabilities are translated at exchange rates in effect at the balance sheet date, and the statement of operations is translated at a monthly average rate. Resulting translation adjustments are recorded directly to a separate component of stockholders equity. Where the U.S. dollar is the functional currency 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 uses foreign currency forward contracts to hedge certain forecasted foreign currency transactions relating to operating expenses. These derivatives, designated as cash flow hedges, have maturities of less than one year and permit 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 14 below.

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

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

Software Development Costs

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

Segment Reporting

SFAS 131, Disclosures about Segments of an Enterprise and Related Information, establishes annual and interim reporting standards for operating segments and requires certain disclosures about the products and services an entity provides, the material countries in which it holds assets and reports revenue, and its major customers. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Ciena s chief operating decision maker is its chief executive officer, who reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. Ciena has one business activity, and there are no segment managers who are held accountable for operations, operating results and plans for levels or components below the consolidated unit level. Accordingly, Ciena considers its business to be in a single reportable segment.

Newly Issued Accounting Standards

In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13. This staff position amends SFAS 157 to remove certain leasing transactions from its scope. Also in February 2008 the FASB issued FSP FAS 157-2, Effective Date of FASB Statement No. 157. This staff position delays the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008. In October 2008, the FASB issued FSP FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active. FSP FAS 157-3 clarifies the application of SFAS No. 157 in a market that is not active, and provides guidance on the key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. Ciena is currently evaluating the impact the adoption of these staff positions could have on its financial condition, results of operations and cash flows.

In April 2009, the FASB released three staff positions intended to provide additional guidance and enhanced disclosure regarding fair value measurements and impairments of securities. FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, provides additional guidelines for estimating fair value in accordance with SFAS157. FSP FAS 115-2, Recognition and Presentation of Other-Than-Temporary Impairments, provides additional guidance related to the disclosure of impairment losses on securities and the accounting for impairment losses on debt securities. FSP 115-2 does not amend existing guidance related to other-than-temporary impairments of equity securities. FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, increases the frequency of fair value disclosures. All of the staff positions above are effective for interim and annual periods ending after June 15, 2009 and will be effective for Ciena beginning with its third quarter of fiscal 2009. Ciena believes the adoption of this statement will not have a material impact on its financial condition, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. SFAS 160 requires all entities to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. Ciena believes the adoption of this statement will not have a material impact on its financial condition, results of operations and cash flows.

In December 2007, the FASB issued SFAS 141(R), a revised version of SFAS 141, Business Combinations. The revision is intended to simplify existing guidance and converge rulemaking under U.S. generally accepted accounting principles with international accounting rules. This statement applies prospectively to business combinations where the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply this statement before that date. Ciena is currently evaluating the impact the adoption of this statement could have on its financial condition, results of operations and cash flows. Its effect will depend on the nature and significance of any acquisitions subject to this statement.

In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets, which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. This pronouncement requires enhanced disclosures concerning a company s treatment of costs incurred to renew or extend the term of a recognized intangible asset. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008. Ciena is currently evaluating the impact the adoption of this statement could have on its financial condition, results of operations and cash flows.

In May 2008, the FASB issued FSP APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion. FSP APB 14-1 requires that the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) be separately accounted for in a manner that reflects an issuer s nonconvertible debt borrowing rate. The resulting debt discount is amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Retrospective application to all periods presented is required except for instruments that were not outstanding during any of the periods that will be presented in the annual financial statements for the period of adoption but were outstanding during an earlier period. Ciena s existing convertible notes payable do not provide for settlement in cash upon conversion and Ciena believes the adoption of this statement will not have a material effect on its financial condition, results of operations and cash flows.

(3) BUSINESS COMBINATIONS

On March 3, 2008, Ciena acquired World Wide Packets, Inc. (World Wide Packets or WWP), a supplier of communications networking equipment that enables the delivery of carrier Ethernet-based services. Prior to the acquisition, World Wide Packets was a privately held company. Ciena s results of operations in this report include the operations of World Wide Packets beginning on March 3, 2008, the effective date of the acquisition.

The following unaudited pro forma financial information summarizes the results of operations as if Ciena s acquisition of World Wide Packets had been completed as of the beginning of the period presented. These pro forma amounts (in thousands, except per share data) do not purport to be indicative of the results that would have been obtained if the acquisition had occurred as of the beginning of the period presented or that may be obtained in the future.

	Quarter Ended April 30, 2008	Six Months Ended April 30, 2008
Pro forma revenue	$ 242,768	$ 476,265
Pro forma net income	$ 18,244	$ 34,469
Pro forma basic net income per common share	$ 0.20	$ 0.38
Pro forma diluted net income per potential common share	$ 0.18	$ 0.34

(4) GOODWILL IMPAIRMENT

Ciena tests its single reporting unit s goodwill for impairment on an annual basis, which Ciena has determined to be the last business day of fiscal September each year. 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 current 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.

The table below sets forth changes in 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 April 30, 2009	$

(5) RESTRUCTURING COSTS

Ciena has previously taken actions to align its workforce, facilities and operating costs with perceived market opportunities and business conditions. Ciena implemented these restructuring plans and incurred the associated liability concurrently in accordance with the provisions of SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities.

On March 2, 2009, Ciena committed to certain restructuring actions and subsequently effected a headcount reduction of approximately 200 employees, representing 9% of its global workforce. Headcount reductions were implemented across Ciena s organizations and geographies, with the timing and scope of such reductions varying by country based on local legal requirements. These headcount reductions are expected to be completed during the third fiscal quarter of 2009. Restructuring charges during the second quarter of fiscal 2009 include severance and other employee-related costs of approximately $3.5 million related to this restructuring activity. During the second quarter of fiscal 2009, Ciena also recorded additional charges of $2.9 million related to costs associated with previously restructured facilities.

During the first quarter of fiscal 2009, Ciena recorded a restructuring charge of $0.1 million related to one-time termination benefits.

The following table sets forth the activity and balance of the restructuring liability accounts for the six months ended April 30, 2009 (in thousands):

	Workforce reduction	Consolidation of excess facilities	Total
Balance at October 31, 2008	$ 982	$ 3,243	$ 4,225
Additional liability recorded	3,575	2,900	6,475
Cash payments	(2,460)	(377)	(2,837)
Balance at April 30, 2009	$ 2,097	$ 5,766	$ 7,863
Current restructuring liabilities	$ 2,097	$ 1,054	$ 3,151
Non-current restructuring liabilities	$	$ 4,712	$ 4,712

The following table sets forth the activity and balance of the restructuring liability accounts for the six months ended April 30, 2008 (in thousands):

	Consolidation of excess facilities
Balance at October 31, 2007	$ 4,688
Cash payments	(460)
Balance at April 30, 2008	$ 4,228
Current restructuring liabilities	$ 761
Non-current restructuring liabilities	$ 3,467

(6) MARKETABLE SECURITIES

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

	April 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government obligations	$ 481,496	$ 571	$ 23	$ 482,044
Publicly traded equity securities	250			250
	$ 481,746	$ 571	$ 23	$ 482,294
Included in short-term investments	481,746	571	23	482,294
Included in long-term investments				
	$ 481,746	$ 571	$ 23	$ 482,294

	October 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate bonds	$ 116,531	$ 81	$ 2,260	$ 114,352
Asset-backed obligations	10,188		7	10,181
Commercial paper	49,871	7	8	49,870
U.S. government obligations	334,195	949	40	335,104
Certificate of deposit	13,000			13,000
	$ 523,785	$ 1,037	$ 2,315	$ 522,507
Included in short-term investments	366,054	812	530	366,336
Included in long-term investments	157,731	225	1,785	156,171
	$ 523,785	$ 1,037	$ 2,315	$ 522,507

Gross unrealized losses related to marketable debt investments were primarily due to changes in interest rates. Ciena s management has determined that the gross unrealized losses at April 30, 2009 are temporary in nature because Ciena has the ability and intent to hold these investments until a recovery of fair value, which may be maturity. As of the dates indicated, gross unrealized losses were as follows (in thousands):

	April 30, 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	$ 23	$ 239,901	$	$	$ 23	$ 239,901

	$ 23	$ 239,901	$	$	$ 23	$ 239,901

	October 31, 2008					
	Unrealized Losses Less Than 12 Months		Unrealized Losses 12 Months or Greater		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Corporate bonds	$ 2,260	$ 88,176	$	$	$ 2,260	$ 88,176
Asset-backed obligations	7	10,181			7	10,181
Commercial paper	8	29,709			8	29,709
U.S. government obligations	40	23,438			40	23,438
	$ 2,315	$ 151,504	$	$	$ 2,315	$ 151,504

The following table summarizes final legal maturities of debt investments at April 30, 2009 (in thousands):

	Amortized Cost	Estimated Fair Value
Less than one year	$ 481,496	$ 482,044
Due in 1-2 years		
Due in 2-3 years		
	$ 481,496	$ 482,044

(7) FAIR VALUE MEASUREMENTS

SFAS 157 defines fair value 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. SFAS 157 establishes 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;

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.

As of the dates indicated, the following tables summarize the fair value of assets and liabilities that are recorded at fair value on a recurring basis (in thousands):

	April 30, 2009			
Assets:	Level 1	Level 2	Level 3	Total
U.S. government obligations	$	$ 482,044	$	$ 482,044
Publicly traded equity securities	250			250
Total assets measured at fair value	$ 250	$ 482,044	$	$ 482,294

	April 30, 2009			
Liabilities:	Level 1	Level 2	Level 3	Total
Foreign currency forward contracts	$	$ 442	$	$ 442
Total liabilities measured at fair value	$	$ 442	$	$ 442

Ciena s Level 1 assets include corporate equity securities publicly traded on major exchanges that are valued using quoted prices in active markets. Ciena s Level 2 investments include U.S. government obligations. These investments are valued using observable inputs such as quoted market prices, benchmark yields, reported trades, broker/dealer quotes or alternative pricing sources with reasonable levels of price transparency. Investments are held by a custodian who obtains investment prices from a third party pricing provider that uses standard inputs to models which vary by asset class.

As of April 20, 2009, Ciena did not hold financial assets and liabilities recorded at fair value basen on Level 3 inputs.

As of the dates indicated, the assets and liabilities above were presented on Ciena s condensed consolidated balance sheet as follows (in thousands):

April 30, 2009

Assets:	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$	$	$	$
Short-term investments	250	482,044		482,294
Total current assets measured at fair value	250	482,044		482,294
Long-term investments				
Total assets measured at fair value	$ 250	$ 482,044	$	$ 482,294

	April 30, 2009			
Liabilities:	Level 1	Level 2	Level 3	Total
Accrued liabilities	$	$ 442	$	$ 442
Total current liabilities measured at fair value	$	$ 442	$	$ 442

During the second quarter of fiscal 2009, a private technology company, in which Ciena holds a minority equity investment, merged with another private technology company. This event required Ciena to perform an impairment analysis and measure the investment at fair value. In determining its fair value, Ciena utilized Level 3 inputs including recapitalization of the combined company in connection with the merger and the terms of a subsequent round of financing offered by the merged company. As a result, Ciena recorded a non-cash loss on cost method investments of $2.5 million during the second quarter of fiscal 2009.

During the first quarter of fiscal 2009, a separate private technology company, in which Ciena held a minority equity investment, was acquired by a publicly-traded company. This event required Ciena to perform an impairment analysis and measure the investment at fair value. In determining its fair value, Ciena utilized Level 2 inputs including the relevant exchange ratio for the acquisition transaction and the market price of the acquiror s common stock. As a result, Ciena recorded a non-cash loss on cost method investments of $0.6 million during the first quarter of fiscal 2009.

(8) ACCOUNTS RECEIVABLE

As of October 31, 2008 and April 30, 2009, three customers accounted for 59.0% and 46.7% of net accounts receivable, respectively.

Ciena s allowance for doubtful accounts receivable is based on management s assessment, on a specific identification basis, of the collectibility of customer accounts, and as of October 31, 2008 and April 30, 2009 was $0.1 million.

(9) INVENTORIES

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

	October 31, 2008	April 30, 2009
Raw materials	$ 19,044	$ 20,538
Work-in-process	1,702	1,100
Finished goods	95,963	91,769
	116,709	113,407
Provision for excess and obsolescence	(23,257)	(22,138)
	$ 93,452	$ 91,269

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 six months of fiscal 2009, Ciena recorded a provision for excess and obsolete inventory of $8.8 million, primarily related to changes in forecasted sales for certain products. Deductions from the provision for excess and obsolete inventory generally 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 for obsolescence	8,809
Actual inventory disposed	(9,928)
Reserve balance as of April 30, 2009	$ 22,138

During the first six months of fiscal 2008, Ciena recorded a provision for excess and obsolete inventory of $10.5 million, primarily related to changes in forecasted sales for certain products. Deductions from the provision for excess and obsolete inventory generally 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, 2007	$ 26,170

Provision for excess and obsolescence	10,540
Actual inventory disposed	(10,368)
Reserve balance as of April 30, 2008	$ 26,342

(10) PREPAID EXPENSES AND OTHER

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

	October 31, 2008	April 30, 2009
Interest receivable	$ 2,082	$ 624
Prepaid VAT and other taxes	15,160	10,834
Deferred deployment expense	4,481	2,654
Prepaid expenses	10,557	10,229
Restricted cash	1,717	1,210
Other non-trade receivables	1,891	888
	$ 35,888	$ 26,439

(11) EQUIPMENT, FURNITURE AND FIXTURES

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

	October 31, 2008	April 30, 2009
Equipment, furniture and fixtures	$ 286,940	$ 291,619
Leasehold improvements	40,574	43,206
	327,514	334,825
Accumulated depreciation and amortization	(267,547)	(274,726)
	$ 59,967	$ 60,099

(12) OTHER INTANGIBLE ASSETS

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

	October 31, 2008			April 30, 2009		
	Gross Intangible	Accumulated Amortization	Net Intangible	Gross Intangible	Accumulated Amortization	Net Intangible
Developed technology	$ 185,833	$ (128,255)	$ 57,578	$ 185,833	$ (137,880)	$ 47,953
Patents and licenses	47,370	(37,952)	9,418	47,370	(40,596)	6,774
Customer relationships, covenants not to compete, outstanding purchase orders and contracts	68,281	(43,028)	25,253	68,281	(46,689)	21,592
	$ 301,484	$ (209,235)	$ 92,249	$ 301,484	$ (225,165)	$ 76,319

The aggregate amortization expense of other intangible assets was $17.2 million and $15.9 million for the first six months of fiscal 2008 and 2009, respectively. Expected future amortization of other intangible assets for the fiscal years indicated is as follows (in thousands):

Period ended October 31,	
2009 (remaining six months)	$ 15,499
2010	27,872
2011	13,852
2012	9,473
2013	7,217
Thereafter	2,406
	$ 76,319

(13) OTHER BALANCE SHEET DETAILS

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

	October 31, 2008	April 30, 2009
Maintenance spares inventory, net	$ 30,038	$ 33,426
Deferred debt issuance costs, net	15,127	13,980
Investments in privately held companies	6,671	3,100
Restricted cash	20,436	21,052
Other	3,476	2,962
	$ 75,748	$ 74,520

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 $1.1 million during the first six months of fiscal 2008 and fiscal 2009, respectively.

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

	October 31, 2008	April 30, 2009
Warranty	$ 37,258	$ 38,883
Compensation, payroll related tax and benefits	35,200	30,932
Interest payable	1,683	1,671
Foreign currency forward contracts		442
Other	22,002	23,948
	$ 96,143	$ 95,876

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

Six Months Ended April 30,	Beginning Balance	Provisions	Settlements	Balance at end of period
2008	$ 33,580	$7,083	$(4,829)	$35,834
2009	$ 37,258	$9,235	$(7,610)	$38,883

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

	October 31, 2008	April 30, 2009
Products	$ 13,061	$ 14,401
Services	61,366	63,598
	74,427	77,999
Less current portion	(36,767)	(42,974)
Long-term deferred revenue	$ 37,660	$ 35,025

(14) DERIVATIVES

Ciena uses 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 and have maturities of less than one year. These forward contracts are not designed to provide foreign currency protection over the long-term. Ciena considers several factors, including offsetting exposures, significance of exposures, costs associated with entering into a particular instrument, and potential effectiveness when designing its hedging activities.

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.

Ciena s foreign currency forward contracts are classified as follows:

	Reclassified to Condensed Consolidated Statement of Operations (Effective Portion)			
	Quarter Ended April 30,		Six Months Ended April 30,	
Line Item in Condensed Consolidated Statement of Operations	2008	2009	2008	2009
Research and development	$	$ 264	$	$ 304
Selling and marketing		573		738
	$	$ 837	$	$ 1,042

	Recognized in Other Comprehensive Income			
	Quarter Ended April 30,		Six Months Ended April 30,	
Line Item in Condensed Consolidated Balance Sheet	2008	2009	2008	2009
Accumulated other comprehensive income (loss)	$	$ 811		$ (1,484)
	$	$ 811		$ (1,484)

	Ineffective Portion			
	Quarter Ended April 30,		Six Months Ended April 30,	
Line Item in Condensed Consolidated Statement of Operations	2008	2009	2008	2009
Other income, net	$	$	$	$
	$	$	$	$

Foreign currency forward contracts outstanding at April 30, 2009 are summarized as follows (in thousands):

Derivatives Designated as Cash Flow Hedging Instruments under SFAS 133	Weighted Average Contract Exchange Rate		Notional Amount		Derivative Asset Fair Value		Derivative Liability Fair Value		Total Derivative Asset/(Liability) Fair Value	
	October 31, 2008	April 30, 2009	October 31, 2008	April 30, 2009	October 31, 2008	April 30, 2009	October 31, 2008	April 30, 2009	October 31, 2008	April 30, 2009
USD Functional Currency										
Receive EUR / Pay USD		1.3915	$	$ 21,592	$	$	$	$ (1,009)	$	$ (1,009)
Receive INR / Pay USD		0.0206	$	$ 8,050	$	$	$	$ (266)	$	$ (266)
		0.8252	$	$ 7,594	$	$ 179	$	$	$	$ 179

Receive CAD / Pay USD											
EUR Functional Currency											
Receive GBP / Pay EUR	1.0815	12,470	$	$	654(1)	$	$		$	$	654(1)
Total Fair Value			$	$	833	$	$	(1,275)	$	$	(442)(2)

(1) Fair value translated at exchange rates in effect as of the balance sheet date.

(2) Amount is included within accrued liabilities on the condensed consolidated balance sheet.

(15) 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 dilutive potential common share (Diluted EPS). Basic EPS is computed using the weighted average number of common shares outstanding. Diluted EPS is computed using the weighted average number of (i) common shares outstanding, (ii) shares issuable upon vesting of restricted stock units, (iii) shares issuable upon exercise of outstanding stock options, employee stock purchase plan options and warrants using the treasury stock method; and (iv) shares underlying the 0.25% and 0.875% convertible senior notes.

Numerator	Quarter Ended April 30, 2008	Quarter Ended April 30, 2009	Six Months Ended April 30, 2008	Six Months Ended April 30, 2009
Net income (loss)	$ 23,760	$ (503,210)	$ 52,567	$ (528,041)
Add: Interest expense for 0.25% convertible senior notes	470		941	
Add: Interest expense for 0.875% convertible senior notes	1,388		2,735	
Net income (loss) used to calculate Diluted EPS	$ 25,618	$ (503,210)	$ 56,243	$ (528,041)

Denominator	Quarter Ended April 30, 2008	Quarter Ended April 30, 2009	Six Months Ended April 30, 2008	Six Months Ended April 30, 2009
Basic weighted average shares outstanding	89,102	90,932	88,155	90,777
Add: Shares underlying outstanding stock options, employees stock purchase plan options, warrants and restricted stock units	970		1,193	
Add: Shares underlying 0.25% convertible senior notes	7,590		7,590	
Add: Shares underlying 0.875% convertible senior notes	13,108		13,108	
Dilutive weighted average shares outstanding	110,770	90,932	110,046	90,777

EPS	Quarter Ended April 30, 2008	Quarter Ended April 30, 2009	Six Months Ended April 30, 2008	Six Months Ended April 30, 2009
Basic EPS	$ 0.27	$ (5.53)	$ 0.60	$ (5.82)
Diluted EPS	$ 0.23	$ (5.53)	$ 0.51	$ (5.82)

Explanation of Shares Excluded due to Anti-Dilutive Effect

For the quarter and six months ended April 30, 2008, the weighted average number of shares set forth in the table below, underlying outstanding stock options, employee stock purchase plan options, restricted stock units, and warrants, is considered anti-dilutive because the exercise price of these equity awards is greater than the average per share closing price on the NASDAQ Stock Market during this period. In addition, for the six months ended April 30, 2008 the weighted average number of shares underlying Ciena s previously outstanding 3.75% convertible notes, which were repaid at maturity on February 1, 2008, is considered anti-dilutive pursuant to SFAS 128 because the related interest expense on a per common share if converted basis exceeds Basic EPS for the period.

For the quarter and six months ended April 30, 2009, the weighted average number of shares set forth in the table below, underlying outstanding stock options, employee stock purchase plan options, restricted stock units, and warrants, is 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 0.25% convertible senior notes and Ciena s 0.875% convertible senior notes, are considered anti-dilutive pursuant to SFAS 128 because the related interest expense on a per common share if converted basis exceeds Basic EPS for the 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 April 30,		Six Months Ended April 30,	
Shares excluded from EPS Denominator due to anti-dilutive effect	2008	2009	2008	2009
Shares underlying stock options, restricted stock units and warrants	5,278	7,992	3,980	7,950
3.75% convertible notes			377	
0.25% convertible senior notes		7,539		7,539
0.875% convertible senior notes		13,108		13,108
Total excluded due to anti-dilutive effect	5,278	28,639	4,357	28,597

(16) SHARE-BASED COMPENSATION EXPENSE

Ciena makes 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.

2008 Plan

Ciena grants stock options and restricted stock units under the 2008 Plan. As of April 30, 2009, there were 2.8 million shares authorized and available for issuance thereunder.

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, 2008	6,399	$ 48.84
Granted	166	7.50
Exercised	(76)	1.91
Canceled	(472)	53.49
Balance as of April 30, 2009	6,017	$ 47.93

The total intrinsic value of options exercised during the first six months of fiscal 2008 and fiscal 2009, was $12.8 million and $0.4 million, respectively. The weighted average fair values of each stock option granted by Ciena during the first six months of fiscal 2008 and fiscal 2009 were $16.95 and $4.26, respectively.

The following table summarizes information with respect to stock options outstanding at April 30, 2009, based on Ciena s closing stock price of $11.98 per share on the last trading day of Ciena s second fiscal quarter of 2009 (shares and intrinsic value in thousands):

Range of Exercise Price		Options Outstanding at April 30, 2009				Vested Options at April 30, 2009			
		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	914	7.15	$ 10.28	$ 3,374	584	6.29	$ 11.58	$ 1,814
$ 16.53	$ 17.43	590	6.47	17.21		470	6.03	17.18	
$ 17.44	$ 22.96	499	5.88	21.76		420	5.31	21.93	
$ 22.97	$ 31.71	1,583	5.66	29.43		1,214	4.89	29.80	
$ 31.72	$ 46.97	1,033	6.75	39.32		670	5.76	40.16	
$ 46.98	$ 83.13	534	3.54	60.10		534	3.54	60.10	
$ 83.14	$ 1,046.50	864	1.78	160.51		864	1.78	160.51	
$ 0.01	$ 1,046.50	6,017	5.43	$ 47.93	$ 3,374	4,756	4.62	$ 54.23	$ 1,814

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 April 30,	Six Months Ended April 30,

	2008	2009	2008	2009
Expected volatility	53.0%	65.0%	53.0%	65.0%
Risk-free interest rate	2.7% - 3.2%	2.1% - 2.4%	2.7% - 3.6%	1.7% - 2.4%
Expected life (years)	5.1 - 5.3	5.2 - 5.3	5.1 - 5.3	5.2 - 5.3
Expected dividend yield	0.0%	0.0%	0.0%	0.0%

Consistent with SFAS 123(R) and SAB 107, Ciena considered the implied volatility and historical volatility of its stock price in determining its expected volatility, and, finding both to be equally reliable, determined that a combination of both would result in the best estimate of expected volatility.

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

The expected term of employee stock options represents the weighted-average period the stock options are expected to remain outstanding. As prescribed by SAB 107, Ciena s expected term is based on specific exercise behavior of its historical grantees.

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). At the beginning of each of the first three fiscal years following the date of grant, the Compensation Committee establishes one-year performance targets which, if satisfied, provide for the acceleration of vesting of one-third of the award. As a result, the grantee has the opportunity, subject to satisfaction of performance conditions, to vest as to the entire award in three years. 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, 2008	1,849	$ 30.85	$ 17,773
Granted	3,327		
Vested	(534)		
Canceled or forfeited	(43)		

Balance as of April 30, 2009	4,599	$ 14.86	$ 55,101

The total fair value of restricted stock units that vested and were converted into common stock during the first six months fiscal 2008 and fiscal 2009 was $11.3 million and $3.8 million, respectively. The weighted average fair value of each restricted stock unit granted by Ciena during the first six months of fiscal 2008 and fiscal 2009 was $31.99 and $6.96, 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 under FAS 123(R) 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, 2008	3,488	
Evergreen provision	83	
Issued March 16, 2009	(67)	$ 23
Balance as of April 30, 2009	3,504	

Share-Based Compensation Expense for Periods Reported

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

	Quarter Ended April 30,		Six Months Ended April 30,	
	2008	2009	2008	2009
Product costs	$ 742	$ 445	$ 1,307	$ 1,158
Service costs	392	425	638	822
Share-based compensation expense included in cost of sales	1,134	870	1,945	1,980
Research and development	2,286	2,817	3,463	5,383
Sales and marketing	3,022	2,685	5,486	5,388
General and administrative	2,233	2,773	4,442	5,192
Share-based compensation expense included in operating expense	7,541	8,275	13,391	15,963
	196	(48)	416	(352)

Share-based compensation expense capitalized in inventory, net				
Total share-based compensation	$ 8,871	$ 9,097	$ 15,752	$ 17,591

As of April 30, 2009, total unrecognized compensation expense was: (i) $16.0 million, which relates to unvested stock options and is expected to be recognized over a weighted-average period of 1.2 years; and (ii) $55.8 million, which relates to unvested restricted stock units and is expected to be recognized over a weighted-average period of 1.5 years.

(17) COMPREHENSIVE INCOME (LOSS)

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

	Quarter Ended April 30,		Six Months Ended April 30,	
	2008	2009	2008	2009
Net income (loss)	$ 23,760	$ (503,210)	$ 52,567	$ (528,041)
Change in unrealized gain (loss) on available-for-sale securities	(742)	(89)	(204)	1,677
Change in unrealized gain (loss) on derivative instruments		1,648		(442)
Change in accumulated translation adjustments	716	251	2,003	7
Total comprehensive income (loss)	$ 23,734	$ (501,400)	$ 54,366	$ (526,799)

(18) ENTITY WIDE DISCLOSURES

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

	Quarter Ended April 30,				Six Months Ended April 30,			
	2008	%*	2009	%*	2008	%*	2009	%*
United States	$ 169,373	69.9	$ 91,700	63.6	$ 338,891	72.2	$ 190,647	61.2
United Kingdom	36,559	15.1	18,581	12.9	59,741	12.7	45,298	14.5
Other International	36,267	15.0	33,920	23.5	70,983	15.1	75,656	24.3
Total	$ 242,199	100.0	$ 144,201	100.0	$ 469,615	100.0	$ 311,601	100.0

* Denotes % of total revenue

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

	October 31,		April 30,	
	2008	%*	2009	%*
United States	$ 49,351	82.3	$ 48,154	80.1
International	10,616	17.7	11,945	19.9
Total	$ 59,967	100.0	$ 60,099	100.0

* Denotes % of total equipment,

furniture and fixtures

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

	Quarter Ended April 30,				Six Months Ended April 30,			
	2008	%*	2009	%*	2008	%*	2009	%*
Optical service delivery	$ 203,167	83.9	$ 105,504	73.2	$ 393,720	83.8	$ 235,695	75.7
Carrier Ethernet service delivery	13,014	5.4	13,345	9.2	24,251	5.2	22,871	7.3
Services	26,018	10.7	25,352	17.6	51,644	11.0	53,035	17.0
Total	$ 242,199	100.0	$ 144,201	100.0	$ 469,615	100.0	$ 311,601	100.0

* Denotes % of total revenue

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

	Quarter Ended April 30,				Six Months Ended April 30,			
	2008	%*	2009	%*	2008	%*	2009	%*
Company A	n/a		n/a		59,880	12.8	n/a	
Company B	31,132	12.9	n/a		47,140	10.0	33,239	10.7
Company C	27,622	11.4	n/a		n/a		n/a	
Company D	67,914	28.0	40,105	27.8	129,692	27.6	72,661	23.3
Total	$ 126,668	52.3	$ 40,105	27.8	$ 236,712	50.4	$ 105,900	34.0

n/a Denotes revenue representing less than 10% of total revenue for the period

* Denotes % of total revenue

(19) CONTINGENCIES

Foreign Tax Contingencies

Ciena has received assessment notices from the Mexican tax authorities asserting deficiencies in payments between 2001 and 2005 related primarily to income taxes and import taxes and duties. Ciena has filed judicial petitions appealing these assessments. As of October 31, 2008 and April 30, 2009, Ciena had accrued liabilities of $1.0 million and $0.9 million, respectively, related to these contingencies, which are reported as a component of other current accrued liabilities. As of April 30, 2009, Ciena estimates that it could be exposed to possible losses of up to $5.8 million, for which it has not accrued liabilities. Ciena has not accrued the additional income tax liabilities because it does not believe that such losses are more likely than not to be incurred. Ciena has not accrued the additional import taxes and duties because it does not believe the incurrence of such losses is probable. Ciena continues to evaluate the likelihood of probable and reasonably possible losses, if any, related to these assessments. As a result, future increases or decreases to accrued liabilities may be necessary and will be recorded in the period when such amounts are probable and estimable.

Litigation

On November 7, 2008, JDS Uniphase Corp. (JDSU) filed a complaint with the United States International Trade Commission (ITC) against Ciena and several other respondents, alleging infringement of two patents (U.S. Patent Nos. 6,658,035 and 6,687,278) relating to tunable laser chip technology. The complaint, which names Ciena as a company whose products incorporate the accused technology manufactured by certain other respondents and which technology is imported into the United States, seeks a determination and relief under Section 337 of the Tariff Act of 1930. On December 17, 2008, Ciena and certain other respondents entered into a Settlement Agreement and Agreement to be Bound with JDSU, whereby those respondents agreed, in exchange for dismissal from the investigation, to be bound by any exclusion order issued by the ITC in the investigation in favor of JDSU that takes effect against one or more of the non-settling respondents. Ciena was not required to make any payment in connection with this settlement agreement. Based on that agreement, JDSU contemporaneously filed a motion to terminate the investigation with respect to Ciena and certain other respondents. Based on the ITC staff s initial response to that motion, the parties entered into an amended settlement agreement and, on January 8, 2009, JDSU filed an amended motion to terminate. On February 3, 2009, the ITC judge issued an order granting JDSU s amended motion to terminate, which order was affirmed by the full commission on February 27, 2009. Accordingly, the ITC investigation

has been terminated with respect to Ciena.

On May 29, 2008, Graywire, LLC filed a complaint in the United States District Court for the Northern District of Georgia against Ciena and four other defendants, alleging, among other things, that certain of the parties products infringe U.S. Patent 6,542,673 (the 673 Patent), relating to an identifier system and components for optical assemblies. The complaint, which seeks injunctive relief and damages, was served upon Ciena on January 20, 2009. Ciena filed an answer to the complaint and counterclaims against Graywire on March 26, 2009, and an amended answer and counterclaims on April 17, 2009. On April 24, 2009, Ciena and certain other defendants filed an application for *inter partes* reexamination of the 673 Patent with the U.S. Patent and Trademark Office. On the same date, Ciena and the other defendants filed a motion to stay the case pending reexamination of all of the patents-in-suit, which motion is pending with the court. Ciena believes that it has valid defenses to the lawsuit and intends to defend it vigorously.

On January 31, 2008, Ciena Corporation and Northrop Grumman Guidance and Electronics Company (previously named Litton Systems, Inc.) entered into an agreement to settle patent litigation between the parties pending in the United States District Court for the Central District of California. Pursuant to the settlement agreement, Ciena made a $7.7 million payment and agreed to indemnify the plaintiff, should it be unable to collect compensatory damages awarded, if any, in a final judgment in its favor against a specified Ciena supplier. This obligation is specific to this litigation and, while there is no maximum amount payable, Ciena s obligation is limited to plaintiff s collection of that portion of any compensatory damages award that relates to the supplier s sale of infringing products to Ciena. Ciena has determined the fair value of this guarantee to be insignificant.

As a result of its June 2002 merger with ONI Systems Corp., Ciena became a defendant in a securities class action lawsuit filed in the United States District Court for the Southern District of New York in August 2001. The complaint named ONI, certain former ONI officers and certain underwriters of ONI s initial public offering (IPO) as defendants and alleges, among other things, that the underwriter defendants violated the securities laws by failing to disclose alleged compensation arrangements in ONI s registration statement and by engaging in manipulative practices to artificially inflate the ONI s stock price after the IPO. The complaint also alleges that ONI and the named former officers violated the securities laws by failing to disclose the underwriters alleged compensation arrangements and manipulative practices. The former ONI officers have been dismissed from the action without prejudice. 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. No specific amount of damages has been claimed in this action. Due to the inherent uncertainties of litigation, Ciena cannot accurately predict the ultimate outcome of the matter at this time.

In addition to the matters described above, Ciena is subject to various legal proceedings, claims and litigation arising in the ordinary course of its business. Ciena does not expect that the ultimate costs to resolve these matters will have a material effect on its results of operations, financial position or cash flows.

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

Some of the statements contained, or incorporated by reference, in this quarterly report discuss future events or expectations, contain projections of results of operations or financial condition, changes in the markets for our products and services, or state other forward-looking information. Ciena s forward-looking information is based on various factors and was derived using numerous assumptions. In some cases, you can identify these forward-looking statements by words like may, will, should, expects, plans, anticipates, believes, estimates, predicts, potential or continue or the negative of those words and other comparable words. You should be aware that these statements only reflect our current predictions and beliefs. These statements are subject to known and unknown risks, uncertainties and other factors, and actual events or results may differ materially. Important factors that could cause our actual results to be materially different from the forward-looking statements are disclosed throughout this report, particularly in Item 1A Risk Factors of Part II of this report below. You should review these risk factors and the rest of this quarterly report in combination with the more detailed description of our business and management s discussion and analysis of financial condition in our annual report on Form 10-K, which we filed with the Securities and Exchange Commission on December 23, 2008, for a more complete understanding of the risks associated with an investment in Ciena s securities. Ciena undertakes no obligation to revise or update any forward-looking statements.

Overview

We are a provider of communications networking equipment, software and services that support the transport, switching, aggregation and management of voice, video and data traffic. Our optical service delivery and carrier Ethernet service delivery products are used, individually or as part of an integrated solution, in networks operated by communications service providers, cable operators, governments and enterprises around the globe. We are a network specialist, targeting the transition of disparate, legacy communications networks to converged, next-generation architectures, better able to handle increased traffic and deliver more efficiently a broader mix of high-bandwidth communications services. Our products, along with our service-aware operating system and unified service and transport management, enable service providers to efficiently and cost-effectively deliver critical enterprise and consumer-oriented communication services. Together with our professional support and consulting services, our product offering seeks to address holistically the business and network needs of our customers. By improving network productivity, reducing operating costs and enabling new and integrated service offerings, we create business and operational value for our customers.

Our quarterly reports on Form 10-Q, annual reports on Form 10-K and current reports on Form 8-K filed with the SEC are available through the SEC s website at www.sec.gov or free of charge on our website as soon as reasonably practicable after we file these documents. We routinely post the reports above, recent news and announcements, financial results and other important information about Ciena on our website at www.ciena.com.

Effect of Current Market Conditions

Our business and results of operations continue to suffer negative effects of ongoing difficult macroeconomic conditions, further exacerbated by customer-specific challenges and significant disruptions in the financial and credit markets globally. In response to market conditions, many companies, including some of our largest communications service provider

customers, have slowed spending and indicated their intention to reduce overall capital expenditures as compared to last year. As a result, we have experienced order delays, lengthening sales cycles and slowing deployments in recent quarters, resulting in lower demand across our customer base in all geographies.

These conditions have negatively affected our revenue and earnings in recent quarters. Revenue for the first six months of fiscal 2009 was $311.6 million in comparison to $469.6 million for the same period in fiscal 2008. We expect our revenue for fiscal 2009 to be significantly lower than our fiscal 2008 results and we will not be profitable for the year. The magnitude of the effect of current market conditions on our results of operations is difficult to predict and significantly linked to the duration and severity of the economic downturn and the resulting level of capital expenditure by our largest customers.

Strategy

Despite ongoing macroeconomic challenges, we continue to believe in our longer-term market opportunities and the potential represented by the underlying drivers of future demand in our target markets. We believe growing consumer and enterprise use of, and increased dependence upon, a variety of broadband applications and services, will continue to consume bandwidth, requiring our customers to invest in their networks and transition to more efficient, robust and economical network architectures. As a result, we intend to continue to invest in our business, prioritizing spending on key product and technology initiatives that we believe will strategically position us for longer-term growth when we emerge from this challenging period. Specifically, our ongoing development is focused upon the evolution of our CoreDirector® Multiservice Optical Switch family, the expansion of our carrier Ethernet service delivery and aggregation products, and the extension of our CN 4200 FlexSelect Advanced Service Platform, including 100G technologies and capabilities. Illustrative of the execution of this strategy, in May 2009, we announced plans to implement our first 100G network for NYSE Euronext s new state-of-the-art data centers in the greater New York and London metropolitan areas.

Our broader development initiatives remain focused on delivering upon our vision of transforming networks to adapt and scale, manage unpredictability and eliminate barriers to new service offerings. This vision of simplified, highly-automated networks is based on the following technologies:

- Programmable network elements, including software-programmable hardware platforms and interfaces that use our FlexiPort technology, to enable on-demand and automated support for multiple services and applications;

- Common service-aware operating system and unified transport and service management software for an integrated solution ensuring all network elements work seamlessly together for rapid delivery of services and applications; and

- Optimized carrier Ethernet technology our True Carrier Ethernet for enhanced management, faster provisioning, higher reliability and support for a wider variety of services.

Through these capabilities, we seek to enable customers to automate delivery and management of a broad mix of services over networks that offer enhanced flexibility and are more cost-effective to deploy, scale and manage.

Restructuring Activities

During this period of macroeconomic weakness, we intend to manage our workforce and operating costs carefully to ensure that they are aligned with our business and market opportunities. During the second quarter of fiscal 2009, we took action to effect a headcount reduction of approximately 200 employees or 9% of our global workforce, with headcount reductions implemented across our organizations and geographies. As part of this action, we will also close our Acton, Massachusetts research and development facility on or about June 30, 2009. We expect these steps will help better align our operating expense with market opportunities and the development strategy above. In connection with these actions, we incurred a $3.5 million charge during our second quarter of fiscal 2009, principally consisting of employee-related restructuring expense. We also incurred a $2.9 million restructuring charge related to the revision of previous estimates for restructured facilities. We also expect to incur employee-related restructuring charges of approximately $0.5 million and facilities-related restructuring charges, primarily related to remaining lease payments, of approximately $2.0 million to $4.0 million during the third fiscal quarter of 2009.

Goodwill Impairment

Based on a combination of factors, including current macroeconomic conditions described above and a sustained decline in our common stock price and market capitalization below our net book value, we conducted an interim impairment assessment of goodwill during the second quarter of fiscal 2009. The conclusion of this assessment was the write-off of all goodwill remaining on our balance sheet, resulting in an impairment charge of $455.7 million in the second quarter of fiscal 2009. This impairment charge significantly affected our operating expense and operating and net loss for the second quarter of fiscal 2009. The impairment charge above will not result in any current or future cash expenditures.

Acquisition of World Wide Packets

On March 3, 2008, we completed our acquisition of World Wide Packets, Inc. (WWP), a provider of communications network equipment that enables the cost-effective delivery of a variety of carrier Ethernet-based services. See Note 3 to the Condensed Consolidated Financial Statements included in Item 1 of Part I of this report for additional information related to this acquisition.

Financial Results

We experienced the year-over-year and sequential revenue declines set forth below primarily as a result of the market conditions described above and the resulting decrease in demand across our customer base.

- Revenue for the second quarter of fiscal 2009 was $144.2 million, representing a 14% sequential decrease from $167.4 million in the first quarter of fiscal 2009 and a 41% decrease from $242.2 million in second quarter of fiscal 2008;

- Revenue from the U.S. for the second quarter of fiscal 2009 was $91.7 million, a decrease from $98.9 million in the first quarter of fiscal 2009 and $169.4 million in the second quarter of fiscal 2008;

- International revenue for the second quarter of fiscal 2009 was $52.5 million, a decrease from $68.5 million in the first quarter of 2009 and $72.8 million in the second quarter of fiscal 2008; and

- As a percentage of revenue, international revenue was 36.4% during the second quarter of fiscal 2009, a decrease from 40.9% in the first quarter of fiscal 2009 and an increase from 30.1% in the second quarter of fiscal 2008.

In recent quarters our international composition of revenue has been higher than historical periods. This reflects our continued investments in our EMEA operations, as well as the effect of significant reductions in spending by our largest, U.S.-based communications service provider customers as a result of the economic downturn. International revenue, measured in dollars has been negatively affected by the global market conditions described above as well as the strengthening of the U.S. dollar in recent periods.

For the second quarter of fiscal 2009, one customer accounted for 27.8% of revenue, as compared to our first quarter of 2009, when three customers accounted for greater than 10% of revenue and 40.8% in the aggregate.

Gross margin for the second quarter of fiscal 2009 was 42.1%, down from 42.9% in the first quarter of fiscal 2009, and 52.7% in the second quarter of fiscal 2008. Gross margin for the second quarter of fiscal 2009 was negatively affected by charges of approximately $5.8 million related to two committed customer sales contracts that result in a negative gross margin on the initial phases of the customers deployment. The charges relate to a contract with a new large carrier customer in a new geography for our sales, and another contract to secure a new market opportunity with an existing international carrier customer. Part of our strategy is to focus on the growth and diversification of our customer base, including through an expansion of our global footprint outside of our traditional markets in North America and Western Europe. As we have sought to execute on this strategy and displace incumbent equipment vendors, we have experienced greater pricing pressure, particularly for our core transport products.

Operating expense for the second quarter of fiscal 2009 was $563.7 million, an increase from $98.6 million in the first quarter of fiscal 2009 and $108.6 million for the second quarter of fiscal 2008. Exclusive of the goodwill impairment and restructuring charges described above, operating expense for the second quarter increased by $3.0 million sequentially. This increase was primarily related to research and development expense to fund the development initiatives and strategy described above.

Our loss from operations for the second quarter of fiscal 2009 was $503.0 million. This compares to a $26.7 million loss from operations during the first quarter of 2009 and $19.0 million in income from operations for the second quarter of fiscal 2008. Our net loss for the second quarter of fiscal 2009 was $503.2 million, or $5.53 per share. This compares to a net loss of $24.8 million, or $0.27 per share, for the first quarter of fiscal 2009.

We generated $2.9 million in cash from operations during the second quarter of fiscal 2009, consisting of the use of $12.4 million in cash from net income (adjusted for non-cash charges) and $15.3 million in net cash generated from changes in working capital. This compares with a use of $0.9 million in cash from operations during the first quarter

of fiscal 2009, consisting of $5.9 million in cash generated from net income (adjusted for non-cash charges) and a $6.8 million net use of cash resulting from changes in working capital.

At April 30, 2009, we had $583.5 million in cash and cash equivalents and $482.3 million of short-term investments in marketable debt securities.

As of April 30, 2009, head count was 2,104, a decrease from 2,238 at January 31, 2009 and 2,119 at April 30, 2008.

Results of Operations

Our results of operations for the first six months and second quarter of fiscal 2008 only include the operations of World Wide Packets after the March 3, 2008 acquisition date.

Revenue

We derive revenue from sales of our products and services, which we discuss in the following three major groupings:

1. *Optical Service Delivery*. Included in product revenue, this revenue grouping reflects sales of our transport and switching products and legacy data networking products and related software. This revenue grouping was previously referred to as our converged Ethernet infrastructure products.

2. *Carrier Ethernet Service Delivery*. Included in product revenue, this revenue grouping reflects sales of our service delivery and aggregation switches, Ethernet access products, broadband access products, and the related software.

3. *Services*. Included in services revenue are sales of installation, deployment, maintenance support, consulting and training activities.

The nature of our business exposes us to the likelihood of quarterly fluctuations in revenue. A sizable portion of our revenue continues to come from sales to a small number of communications service providers for large network builds. As a result, our revenues are closely tied to the prospects, performance, and financial condition of our largest customers and are significantly affected by market-wide changes, including reductions in enterprise and consumer spending, that affect the businesses and level of infrastructure-related spending by communications service providers. Moreover, these network projects are generally characterized by large and sporadic equipment orders and contract terms that can result in the recognition or deferral of significant amounts of revenue in a given quarter. The timing of such orders and recognition of the related revenue can be difficult to predict. We expect this high level of revenue concentration among a small number of large communications service provider customers to continue. This concentration of revenue increases our risk of quarterly fluctuations in revenue and operating results and can exacerbate our exposure to reductions in spending or changes in network strategy involving one or more of our significant customers.

Given current macroeconomic conditions and the effect of lower demand in recent quarters, as well as changes in the mix of our revenue toward products with shorter customer lead times, the percentage of our quarterly revenue relating to orders placed in that quarter has increased in comparison to prior periods. Lower levels of backlog and an increase in the percentage of quarterly revenue relating to orders placed in that quarter could result in more variability and less predictability in our quarterly results.

Cost of Goods Sold

Product cost of goods sold consists primarily of amounts paid to third-party contract manufacturers, component costs, direct compensation costs and overhead, shipping and logistics costs associated with manufacturing-related operations, warranty and other contractual obligations, royalties, license fees, amortization of intangible assets, cost of excess and obsolete inventory and, when applicable, estimated losses on committed customer contracts.

Services cost of goods sold consists primarily of direct and third-party costs, including personnel costs, associated with provision of services including installation, deployment, maintenance support, consulting and training activities, and, when applicable, estimated losses on committed customer contracts.

Gross Margin

Gross margin continues to be susceptible to quarterly fluctuation due to a number of factors. Product gross margin can vary significantly depending upon the mix of products and customers in a given fiscal quarter. Gross margin can also be affected by volume of orders, our ability to drive product cost reductions, geographic mix, the level of pricing

pressure we encounter, our introduction of new products or entry into new markets, any significant liquidated damages due to performance problems or delays, charges for excess and obsolete inventory and changes in warranty costs.

Service gross margin can be affected by the mix of customers and services, particularly the mix between deployment and maintenance services, geographic mix and the timing and extent of any investments in internal resources to support this business.

Operating Expense

Research and development expense primarily consists of salaries and related employee expense (including share-based compensation expense), prototype costs relating to design, development, testing of our products, and third-party consulting costs.

Sales and marketing expense primarily consists of salaries, commissions and related employee expense (including share-based compensation expense), and sales and marketing support expense, including travel, demonstration units, trade show expense, and third-party consulting costs.

General and administrative expense primarily consists of salaries and related employee expense (including share-based compensation expense), and costs for third-party consulting and other services.

Amortization of intangible assets primarily reflects purchased technology and customer relationships, from our acquisitions.

Three months ended April 30, 2008 compared to three months ended April 30, 2009

Revenue, cost of goods sold and gross profit

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

	Quarter Ended April 30,				Increase	
	2008	%*	2009	%*	(decrease)	%**
Revenues:						
Products	$ 216,181	89.3	$ 118,849	82.4	$ (97,332)	(45.0)
Services	26,018	10.7	25,352	17.6	(666)	(2.6)
Total revenue	242,199	100.0	144,201	100.0	(97,998)	(40.5)
Costs:						
Products	96,041	39.7	65,419	45.4	(30,622)	(31.9)
Services	18,562	7.7	18,062	12.5	(500)	(2.7)
Total cost of goods sold	114,603	47.3	83,481	57.9	(31,122)	(27.2)
Gross profit	$ 127,596	52.7	$ 60,720	42.1	$ (66,876)	(52.4)

* Denotes % of total revenue

** Denotes % change from 2008 to 2009

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

	Quarter Ended April 30,				Increase	
	2008	%*	2009	%*	(decrease)	%**
Product revenue	$ 216,181	100.0	$ 118,849	100.0	$ (97,332)	(45.0)
Product cost of goods sold	96,041	44.4	65,419	55.0	(30,622)	(31.9)
Product gross profit	$ 120,140	55.6	$ 53,430	45.0	$ (66,710)	(55.5)

* Denotes % of product revenue

** Denotes % change from 2008 to 2009

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

	Quarter Ended April 30,				Increase	
	2008	%*	2009	%*	(decrease)	%**
Services revenue	$ 26,018	100.0	$ 25,352	100.0	$ (666)	(2.6)
Services cost of goods sold	18,562	71.3	18,062	71.2	(500)	(2.7)
Services gross profit	$ 7,456	28.7	$ 7,290	28.8	$ (166)	(2.2)

* Denotes % of services revenue

** Denotes % change from 2008 to 2009

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

	Quarter Ended April 30,				Increase	
	2008	%*	2009	%*	(decrease)	%**
Optical service delivery	$ 203,167	83.9	$ 105,504	73.2	$ (97,663)	(48.1)
Carrier Ethernet service delivery	13,014	5.4	13,345	9.2	331	2.5
Services	26,018	10.7	25,352	17.6	(666)	(2.6)
Total	$ 242,199	100.0	$ 144,201	100.0	$ (97,998)	(40.5)

* Denotes % of total revenue

** Denotes % change from 2008 to 2009

Revenue from sales to customers based outside of the United States is reflected as International in the geographic distribution of revenue below. The table below (in thousands, except percentage data) sets forth the changes in geographic distribution of revenue for the periods indicated:

	Quarter Ended April 30,				Increase	
	2008	%*	2009	%*	(decrease)	%**
United States	$ 169,373	69.9	$ 91,700	63.6	$ (77,673)	(45.9)
International	72,826	30.1	52,501	36.4	(20,325)	(27.9)
Total	$ 242,199	100.0	$ 144,201	100.0	$ (97,998)	(40.5)

* Denotes % of total revenue

** Denotes % change from 2008 to 2009

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

	Quarter Ended April 30,			
	2008	%*	2009	%*
Company B	$ 31,132	12.9	$ n/a	
Company C	27,622	11.4	n/a	
Company D	67,914	28.0	40,105	27.8
Total	$ 126,668	52.3	$ 40,105	27.8

n/a Denotes revenue recognized less than 10% of total revenue for the period

* Denotes % of total revenue

Revenue

Product revenue decreased primarily due to a $97.7 million decrease in sales of our optical service delivery products. Lower optical service delivery revenue reflects decreases of $40.7 million in sales of core switching products, $32.1 million in sales of core transport products, $12.8 million in sales of our CN 4200 FlexSelect Advanced Service Platform and $12.1 million in sales of legacy data networking and metro transport products.

Services revenue remained relatively flat.

United States revenue decreased primarily due to a $76.4 million decrease in sales of our optical service delivery products. Lower optical service delivery revenue reflects decreases of $35.5 million in sales of core transport products, $32.8 million in sales of core switching products and $7.5 million in sales of legacy data networking and metro transport products.

International revenue decreased primarily due to a $21.3 million decrease in sales of our optical service delivery products. This reflects a decrease of $12.2 million in sales of CN 4200, $7.9 million in sales of core switching products and $4.6 million of legacy data networking and metro products, partially offset by a $3.4 million increase in sales of our core transport products.

Gross profit

Gross profit as a percentage of revenue decreased due to less favorable product and geographic mix, including fewer sales of core switching products as a percentage of total revenue, increased charges related to losses on committed customer sales contracts and higher charges relating to warranty.

Gross profit on products as a percentage of product revenue decreased due to less favorable product and geographic mix, increased charges related to losses on committed customer sales contracts and higher charges relating to warranty.

Gross profit on services as a percentage of services revenue remained largely unchanged year-over-year.

Operating expense

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

	Quarter Ended April 30,				Increase	
	2008	%*	2009	%*	(decrease)	%**
Research and development	$ 44,628	18.5	$ 49,482	34.3	$ 4,854	10.9
Selling and marketing	38,591	15.9	33,295	23.1	(5,296)	(13.7)
General and administrative	16,650	6.9	12,615	8.7	(4,035)	(24.2)
Amortization of intangible assets	8,760	3.6	6,224	4.3	(2,536)	(28.9)
Restructuring cost		0.0	6,399	4.4	6,399	100.0
Goodwill impairment		0.0	455,673	316.0	455,673	100.0
Total operating expense	$ 108,629	44.9	$ 563,688	390.8	$ 455,059	418.9

* Denotes % of total revenue

** Denotes % change from 2008 to 2009

Research and development expense benefitted by $1.7 million in favorable foreign exchange rates, primarily due to the strengthening of the U.S. dollar. The resulting $4.9 million net change reflects a $3.6 million increase

in prototype expense related to the development initiatives described above. The increase also reflects increases of $2.3 million in employee compensation cost, primarily due to increased headcount, $1.5 million in facilities and information systems expense, and $1.0 million in depreciation expense. These increases were partially offset by a decrease of $2.6 million in consulting services expense.

Selling and marketing expense benefitted by $0.6 million in favorable foreign exchange rates primarily due to the strengthening of the U.S. dollar. The resulting $5.3 million net change reflects decreases of $3.1 million in employee compensation cost, $1.2 million in travel-related expenditures, $0.9 million in consulting services expense, and $0.5 million in marketing program costs. These decreases were partially offset by an increase of $0.5 million in facilities and information systems expenses.

General and administrative expense benefitted by $0.1 million in favorable foreign exchange rates primarily due to the strengthening of the U.S. dollar. The resulting $4.0 million net change reflects decreases of $1.3 million in employee compensation cost, $1.3 million in consulting service expense, $0.6 million in technology-related expenses and $0.5 million in facilities and information systems expenses.

Amortization of intangible assets costs decreased due to certain intangible assets reaching their useful life and becoming fully amortized prior to the second quarter of fiscal 2009.

Restructuring costs were related to the actions described in Overview Restructuring Activities above.

Other items

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

	Quarter Ended April 30,				Increase	
	2008	%*	2009	%*	(decrease)	%**
Interest and other income, net	$8,487	3.5	$3,508	2.4	$(4,979)	(58.7)
Interest expense	$1,861	0.8	$1,852	1.3	$ (9)	(0.5)
Loss on cost method investments	$		$2,570	1.8	$ 2,570	100.0
Provision (benefit) for income taxes	$1,833	0.8	$ (672)	(0.5)	$(2,505)	(136.7)

* Denotes % of total revenue

** Denotes % change from 2008 to 2009

Interest and other income, net decreased due to lower interest rates on investment balances and lower average cash and investment balances due to the use of $210.0 million in cash consideration and related expenses associated with our acquisition of WWP in the second quarter of fiscal 2008. Because we have reallocated our funds principally to investments in U.S. treasuries, we expect interest and other income, net to decrease as compared to the second quarter of fiscal 2009.

Interest expense remained relatively unchanged.

Loss on cost method investments for the second quarter of fiscal 2009 was primarily due to a decline in value of our investment in a privately held technology company that was determined to be other-than-temporary. See Note 7 to our Consolidated Financial Statements in Item 1 of Part I of this report.

Provision for income taxes decreased primarily due to decreased federal and state tax expense, and refundable federal tax credits. We did not record a tax benefit for domestic losses during the second quarter of fiscal 2009.

Six months ended April 30, 2008 compared to six months ended April 30, 2009

Revenue, cost of goods sold and gross profit

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

	Six Months Ended April 30,				Increase	
	2008	%*	2009	%*	(decrease)	%**
Revenues:						
Products	$ 417,971	89.0	$ 258,566	83.0	$ (159,405)	(38.1)
Services	51,644	11.0	53,035	17.0	1,391	2.7
Total revenue	469,615	100.0	311,601	100.0	(158,014)	(33.6)
Costs:						
Products	187,428	39.9	141,786	45.5	(45,642)	(24.4)

Services	38,022	8.1	37,252	12.0	(770)	(2.0)
Total cost of goods sold	225,450	48.0	179,038	57.5	(46,412)	(20.6)
Gross profit	$ 244,165	52.0	$ 132,563	42.5	$ (111,602)	(45.7)

* Denotes % of total revenue

** Denotes % change from 2008 to 2009

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

	Six Months Ended April 30,				Increase	
	2008	%*	2009	%*	(decrease)	%**
Product revenue	$ 417,971	100.0	$ 258,566	100.0	$ (159,405)	(38.1)
Product cost of goods sold	187,428	44.8	141,786	54.8	(45,642)	(24.4)
Product gross profit	$ 230,543	55.2	$ 116,780	45.2	$ (113,763)	(49.3)

* Denotes % of product revenue

** Denotes % change from 2008 to 2009

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

	Six Months Ended April 30,				Increase	
	2008	%*	2009	%*	(decrease)	%**
Services revenue	$ 51,644	100.0	$ 53,035	100.0	$ 1,391	2.7
Services cost of goods sold	38,022	73.6	37,252	70.2	(770)	(2.0)
Services gross profit	$ 13,622	26.4	$ 15,783	29.8	$ 2,161	15.9

* Denotes % of services revenue

** Denotes % change from 2008 to 2009

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

	Six Months Ended April 30,				Increase	
	2008	%*	2009	%*	(decrease)	%**
Optical service delivery	$ 393,720	83.8	$ 235,695	75.7	$ (158,025)	(40.1)
Carrier Ethernet service delivery	24,251	5.2	22,871	7.3	(1,380)	(5.7)
Services	51,644	11.0	53,035	17.0	1,391	2.7
Total	$ 469,615	100.0	$ 311,601	100.0	$ (158,014)	(33.6)

* Denotes % of total revenue

**

Denotes % change from 2008 to 2009

Revenue from sales to customers based outside of the United States is reflected as International in the geographic distribution of revenue below. The table below (in thousands, except percentage data) sets forth the changes in geographic distribution of revenue for the periods indicated:

	Six Months Ended April 30,				Increase	
	2008	%*	2009	%*	(decrease)	%**
United States	$ 338,891	72.2	$ 190,647	61.2	$ (148,244)	(43.7)
International	130,724	27.8	120,954	38.8	(9,770)	(7.5)
Total	$ 469,615	100.0	$ 311,601	100.0	$ (158,014)	(33.6)

* Denotes % of total revenue

** Denotes % change from 2008 to 2009

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

	Six Months Ended April 30,			
	2008	%*	2009	%*
Company A	$ 59,880	12.8	n/a	
Company B	47,140	10.0	33,239	10.7
Company D	129,692	27.6	72,661	23.3
Total	$ 236,712	50.4	$ 105,900	34.0

n/a Denotes revenue recognized less than 10% of total revenue for the period

* Denotes % of total revenue

Revenue

Product revenue decreased primarily due to a $158.0 million decrease in sales of our optical service delivery products. Lower optical service delivery revenue reflects decreases of $72.9 million in sales of core transport products, $66.0 million in sales of core switching products and $26.2 million in sales of legacy data networking and metro transport products. This decrease was partially offset by a $7.0 million increase in sales of our CN 4200. Our revenue was also affected by a $1.6 million decrease in revenue from our carrier Ethernet service delivery products. Lower carrier Ethernet service delivery revenue reflects a decrease of $9.2 million in sales of our broadband access products, partially offset by a $7.6 million increase in sales of our service delivery and aggregation switches.

Services revenue increased by $1.4 million due to $4.1 million increase in maintenance and support services, partially offset by $2.7 million decrease in deployment services.

United States revenue decreased primarily due to a $143.8 million decrease in sales of our optical service delivery products. Lower optical service delivery revenue reflects decreases of $74.2 million in sales of core transport products, $58.7 million in sales of core switching products and $14.5 million in sales of legacy data networking and metro transport products. This decrease was partially offset by a $3.6 million increase in sales of our CN 4200. Our revenue was also affected by a $4.8 million decrease in revenue from our carrier Ethernet service delivery products. Lower carrier Ethernet service delivery revenue reflects a decrease of $9.2 million in sales of our broadband access products, partially offset by a $4.4 million increase in sales of our service delivery and aggregation switches.

International revenue decreased primarily due to a $14.2 million decrease in sales of our optical service delivery products. This primarily reflects a decrease of $11.7 million in sales of legacy data networking and metro transport products and $7.3 million in sales of core switching products. This decrease was partially offset by a $3.4 million increase in sales of CN 4200, $1.3 million sales of core transport products, and $1.2 million of services revenue.

Gross profit

Gross profit as a percentage of revenue decreased due to less favorable product and geographic mix, including fewer sales of core switching products as a percentage of total revenue, increased charges related to losses on committed customer sales contracts and higher charges relating to warranty.

Gross profit on products as a percentage of product revenue decreased due to less favorable product and geographic mix, including fewer sales of core switching products as a percentage of total revenue, increased charges related to losses on committed customer sales contracts and higher charges relating to warranty.

Gross profit on services as a percentage of services revenue increased as a result of favorable services mix, specifically related to sales and maintenance contracts, as well as more efficient deployment. Services gross margin remains heavily dependent upon the mix of services in a given period and may fluctuate from quarter to quarter.

Operating expense

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

	Six Months Ended April 30,				Increase	
	2008	%*	2009	%*	(decrease)	%**
Research and development	$ 80,072	17.0	$ 96,182	30.9	$ 16,110	20.1
Selling and marketing	72,199	15.4	67,114	21.5	(5,085)	(7.0)
General and administrative	39,278	8.4	24,200	7.8	(15,078)	(38.4)
Amortization of intangible assets	15,230	3.2	12,628	4.1	(2,602)	(17.1)
Restructuring cost		0.0	6,475	2.1	6,475	100.0
Goodwill impairment		0.0	455,673	146.2	455,673	100.0
Total operating expense	$ 206,779	44.0	$ 662,272	212.6	$ 455,493	220.3

* Denotes % of total revenue

** Denotes % change from 2008 to 2009

Research and development expense benefitted by $3.7 million in favorable foreign exchange rates primarily due to the strengthening of the U.S. dollar. The resulting $16.1 million net increase reflects higher employee compensation cost of $8.7 million, including a $1.8 million increase in share-based compensation expense, primarily due to increased headcount. Other increases included $5.9 million in prototype expense, $3.9 million in facilities and information systems expense, and $1.9 million in depreciation expense. These increases were partially offset by a decrease of $3.1 million in consulting services expense.

Selling and marketing expense benefitted by $1.4 million in favorable foreign exchange rates primarily due to the strengthening of the U.S. dollar. The resulting $5.1 million net change reflects decreases of $2.6 million in employee compensation cost, $1.6 million in consulting services expense, and $1.6 million in travel-related costs. These decreases were partially offset by a $1.0 million increase in facilities and information systems expense.

General and administrative expense benefitted by $0.4 million in favorable foreign exchange rates primarily due to the strengthening of the U.S. dollar. The resulting $15.1 million net change reflects decreases of $3.2 million in employee compensation cost, $2.4 million in consulting services expense, $1.2 million in facilities and information systems expense, and $0.6 million in technology-related expense. Expense for the first six months of fiscal 2008 included $7.7 million associated with the settlement of patent litigation.

Amortization of intangible assets costs decreased due to certain intangible assets reaching their useful life and becoming fully amortized prior to the second quarter of fiscal 2009.

Restructuring cost for the first six months of fiscal 2009 was primarily related to the actions described in Overview Restructuring Activities above.

Other items

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

	Six Months Ended April 30,				Increase	
	2008	%*	2009	%*	(decrease)	%**
Interest and other income, net	$27,569	5.9	$8,168	2.6	$(19,401)	(70.4)
Interest expense	$ 9,219	2.0	$3,696	1.2	$ (5,523)	(59.9)
Loss on cost method investments	$		$3,135	1.0	$ 3,135	100.0
Provision (benefit) for income taxes	$ 3,169	0.7	$ (331)	(0.1)	$ (3,500)	(110.4)

* Denotes % of total revenue

** Denotes % change from 2008 to 2009

Interest and other income, net decreased due to lower interest rates on investment balances and lower average cash and investment balances. Lower cash balances primarily relate to the repayment at maturity of the $542.3 million principal outstanding on our 3.75% convertible notes during the first quarter of fiscal 2008 and our use of $210.0 million in cash consideration and related expenses associated with our acquisition of WWP in the second quarter of fiscal 2008.

Interest expense decreased primarily due to the repayment of 3.75% convertible notes at maturity at the end of the first quarter of fiscal 2008.

Loss on cost method investments for the first six months of fiscal 2009 was due to the decline in value of our investments in two privately held technology companies that were determined to be other-than-temporary.

Provision for income taxes decreased primarily due to decreased federal and state tax expense, and refundable federal tax credits. We did not record a tax benefit for domestic losses during the first six months of fiscal 2009.

Liquidity and Capital Resources

At April 30, 2009, our principal sources of liquidity were cash and cash equivalents, and short-term and long-term investments. During the second quarter of fiscal 2009, we reallocated our short and long-term investments principally into investments in U.S. treasuries. As a result, at April 30, 2009, all short-term investments principally represent U.S. treasuries, except for $0.2 million in publicly traded securities that we continue to hold as a result of the acquisition of a privately held technology company in which we held an investment. The following table summarizes our cash and cash equivalents and investments (in thousands):

	October 31, 2008	April 30, 2009	Increase (decrease)
Cash and cash equivalents	$ 550,669	$ 583,481	$ 32,812
Short-term investments	366,336	482,294	115,958
Long-term investments	156,171		(156,171)
Total cash and cash equivalents and investments	$ 1,073,176	$ 1,065,775	$ (7,401)

The decrease in total cash and cash equivalents, and investments during the first six months of fiscal 2009 was primarily related to the purchase of capital assets, slightly offset by cash generated from operating activities described in Operating Activities below. Based on past performance and current expectations, we believe that our cash and cash equivalents, investments and cash generated from operations will satisfy our working capital needs, capital expenditures, and other liquidity requirements associated with our existing operations through at least the next 12 months.

The following sections review the significant activities that had an impact on our cash during the first six months of fiscal 2009.

Operating Activities

The following tables set forth (in thousands) components of our $2.0 million of cash generated from operating activities during the period:

Net loss

	Six Months Ended April 30 2009
Net loss	$ 528,041

Our net loss during the first six months of fiscal 2009 included the significant non-cash items summarized in the following table (in thousands):

	Six Months Ended April 30, 2009
Loss on cost method investments	$ 3,135
Depreciation of equipment, furniture and fixtures; and amortization of leasehold improvements	10,830
Goodwill impairment	455,673
Share-based compensation costs	17,591
Amortization of intangible assets	15,930
Provision for inventory excess and obsolescence	8,809
Provision for warranty	9,235
Total significant non-cash charges	$ 521,203

Accounts Receivable, Net

Cash provided by accounts receivable, net of allowance for doubtful accounts, during the first six months of fiscal 2009 was $21.7 million. Our days sales outstanding (DSOs) increased from 51 days for the first six month of fiscal 2008 to 67 days for the first six months of fiscal 2009. Our DSOs increased due to a proportionately higher volume of shipments made later in the second quarter of fiscal 2009 and a higher incidence of customer payment delays.

The following table sets forth (in thousands) changes to our accounts receivable, net of allowance for doubtful accounts, from the end of fiscal 2008 through the end of the second quarter of fiscal 2009:

	October 31, 2008	April 30, 2009	Increase (decrease)
Accounts receivable, net	$ 138,441	$ 116,671	$ (21,770)

Inventory

Cash consumed by inventory during the first six months of fiscal 2009 was $6.6 million. Our inventory turns increased from 2.8 turns during the first six months of fiscal 2008 to 3.1 turns for the first six months of fiscal 2009.

During the first six months of fiscal 2009, changes in inventory reflect an $8.8 million reduction related to a non-cash provision for excess and obsolescence. The following table sets forth (in thousands) changes to the components of our inventory from the end of fiscal 2008 through the end of the second quarter of fiscal 2009:

	October 31, 2008	April 30, 2009	Increase (decrease)
Raw materials	$ 19,044	$ 20,538	$ 1,494
Work-in-process	1,702	1,100	(602)

Finished goods	95,963	91,769	(4,194)
Gross inventory	116,709	113,407	(3,302)
Provision for inventory excess and obsolescence	(23,257)	(22,138)	1,119
Inventory	$ 93,452	$ 91,269	$ (2,183)

Accounts payable, accruals and other obligations

Cash used in operations to pay accounts payable, accruals and other obligations during the first six months of fiscal 2009 was $16.4 million.

During the first six months of fiscal 2009, we had non-operating cash accounts payable reductions of $1.7 million related to equipment payments. Changes in accrued liabilities reflect non-cash provisions of $9.2 million related to warranties and $0.4 million related to foreign currency forward contracts. The following table sets forth (in thousands) changes in our accounts payable, accruals and other obligations from the end of fiscal 2008 through the end of the second quarter of fiscal 2009:

	October 31, 2008	April 30, 2009	Increase (decrease)
Accounts payable	$ 44,761	$ 32,488	$ (12,273)
Accrued liabilities	96,143	95,876	(267)
Restructuring liabilities	4,225	7,863	3,638
Other long-term obligations	8,089	8,586	497
Accounts payable, accruals and other obligations	$ 153,218	$ 144,813	$ (8,405)

Interest Payable on Convertible Notes

Interest on our outstanding 0.25% convertible senior notes, due May 1, 2013, is payable on May 1 and November 1 of each year. We paid $0.4 million in interest on our 0.25% convertible notes during the second quarter of fiscal 2009.

Interest on our outstanding 0.875% convertible senior notes, due June 15, 2017, is payable on June 15 and December 15 of each year. We paid $2.2 million in interest on our 0.875% convertible notes during the first six months of fiscal 2009.

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

The following table reflects (in thousands) the balance of interest payable and the change in this balance from the end of fiscal 2008 through the end of the second quarter of fiscal 2009:

	October 31, 2008	April 30, 2009	Increase (decrease)
Accrued interest payable	$ 1,683	$ 1,671	$ (12)

Deferred revenue

Deferred revenue increased by $3.6 million during the first six months of fiscal 2009. Product deferred revenue represents payments received in advance of shipment and payments received in advance of our ability to recognize revenue. Services deferred revenue is related to payment for service contracts that will be recognized over the contract term. The following table reflects (in thousands) the balance of deferred revenue and the change in this balance from the end of fiscal 2008 through the end of the second quarter of fiscal 2009:

	October 31, 2008	April 30, 2009	Increase (decrease)
Products	$ 13,061	$ 14,401	$ 1,340
Services	61,366	63,598	2,232
Total deferred revenue	$ 74,427	$ 77,999	$ 3,572

Investing Activities

During the first six months of fiscal 2009, we had net sales and maturities of approximately $43.0 million of available for sale securities. Investing activities also included the purchase of approximately $12.6 million in equipment. At the end of second quarter of fiscal 2009, we had outstanding accounts payable for equipment of $0.6 million, which represents a reduction of $1.7 million from the end of fiscal 2008.

Contractual Obligations

During the first six months of fiscal 2009, we did not experience material changes, outside of the ordinary course of business, in our contractual obligations from those reported in our annual report on Form 10-K for the fiscal year ended October 31, 2008. The following is a summary of our future minimum payments under contractual obligations as of April 30, 2009 (in thousands):

	Total	Less than one year	One to three years	Three to five years	Thereafter
Interest due on convertible notes	$ 40,168	$ 5,120	$ 10,240	$ 9,496	$ 15,312
Principal due at maturity on convertible notes	798,000			298,000	500,000
Operating leases (1)	63,102	13,796	23,171	15,142	10,993
Purchase obligations (2)	65,161	65,161			
Total (3)	$ 966,431	$ 84,077	$ 33,411	$ 322,638	$ 526,305

(1) The amount for operating leases above does not include insurance, taxes, maintenance and other costs required by the applicable operating lease. These costs are variable and are not expected to have a material impact.

(2) Purchase obligations relate to purchase order commitments to our contract manufacturers and component suppliers for inventory. In certain instances, we are permitted to cancel, reschedule or adjust these orders.

Consequently, only a portion of the amount reported above relates to firm, non-cancelable and unconditional obligations.

(3) As of April 30, 2009, we also had (i) approximately $5.7 million of other long-term obligations in our condensed consolidated balance sheet for unrecognized tax positions that are not included in this table because the periods of cash settelement with the respective tax authori