REVLON INC /DE/
Form 10-Q
August 04, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

OR

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

For the transition period from__________________ to _______________

Commission File Number: 1-11178
REVLON, INC.
(Exact name of registrant as specified in its charter)

Delaware	13-3662955
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One New York Plaza, New York, New York	10004
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 212-527-4000

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

Indicate by check mark whether the registrant 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ¨ Accelerated filer x

Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

As of June 30, 2017, 52,615,412 shares of Class A Common Stock were outstanding. At such date, 43,109,460 shares of Class A Common Stock were beneficially owned by MacAndrews & Forbes Incorporated and certain of its affiliates.

REVLON, INC. AND SUBSIDIARIES
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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements

REVLON, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in millions, except share and per share amounts)

	June 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 83.7	$ 186.8
Trade receivables, less allowance for doubtful accounts of $10.5 and $11.1 as of June 30, 2017 and December 31, 2016, respectively	389.7	423.9
Inventories	518.1	424.6
Prepaid expenses and other	121.6	88.8
Total current assets	1,113.1	1,124.1
Property, plant and equipment, net of accumulated depreciation of $357.2 and $304.7 as of June 30, 2017 and December 31, 2016, respectively	334.4	320.5
Deferred income taxes	188.4	149.7
Goodwill	702.7	689.5
Intangible assets, net of accumulated amortization of $108.7 and $84.8 as of June 30, 2017 and December 31, 2016, respectively	607.6	636.6
Other assets	115.8	103.1
Total assets	$ 3,062.0	$ 3,023.5
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities:		
Short-term borrowings	$ 11.8	$ 10.8
Current portion of long-term debt	105.5	18.1
Accounts payable	344.6	296.9
Accrued expenses and other	354.8	382.9
Total current liabilities	816.7	708.7
Long-term debt	2,658.3	2,663.1
Long-term pension and other post-retirement plan liabilities	182.8	184.1
Other long-term liabilities	76.6	82.4
Stockholders' deficiency:		
Class A Common Stock, par value $0.01 per share; 900,000,000 shares authorized; 54,657,348 and 53,956,073 shares issued as of June 30, 2017 and December 31, 2016, respectively	0.5	0.5
Additional paid-in capital	1,037.6	1,033.2
Treasury stock, at cost: 1,114,528 and 1,024,908 shares of Class A Common Stock as of June 30, 2017 and December 31, 2016, respectively	(21.7)	(19.2)
Accumulated deficit	(1,451.5)	(1,377.6)
Accumulated other comprehensive loss	(237.3)	(251.7)
Total stockholders' deficiency	(672.4)	(614.8)
Total liabilities and stockholders' deficiency	$ 3,062.0	$ 3,023.5

See Accompanying Notes to Unaudited Consolidated Financial Statements

REVLON, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME
(dollars in millions, except share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net sales	$645.7	$ 488.9	$1,240.6	$ 928.5
Cost of sales	268.2	171.5	533.3	325.4
Gross profit	377.5	317.4	707.3	603.1
Selling, general and administrative expenses	359.1	259.0	712.7	507.1
Acquisition and integration costs	10.0	5.5	27.5	6.0
Restructuring charges and other, net	3.7	0.5	4.9	1.8
Operating income (loss)	4.7	52.4	(37.8)	88.2
Other expenses, net:				
Interest expense	36.7	20.9	71.7	41.9
Amortization of debt issuance costs	2.3	1.4	4.5	2.9
Foreign currency (gains) losses, net	(9.4)	8.5	(13.7)	5.1
Miscellaneous, net	0.3	0.2	1.5	0.5
Other expenses, net	29.9	31.0	64.0	50.4
(Loss) income from continuing operations before income taxes	(25.2)	21.4	(101.8)	37.8
Provision for (benefit from) income taxes	11.9	10.6	(27.0)	16.4
(Loss) income from continuing operations, net of taxes	(37.1)	10.8	(74.8)	21.4
Income (loss) from discontinued operations, net of taxes	0.6	(2.5)	0.9	(2.1)
Net (loss) income	$(36.5)	$ 8.3	$(73.9)	$ 19.3
Other comprehensive income:				
Foreign currency translation adjustments, net of tax [a]	1.8	2.6	6.5	5.3
Amortization of pension related costs, net of tax [b][c]	2.1	2.0	4.1	3.8
Pension curtailment gain, net of tax[d]	—	—	2.6	—
Reclassification into earnings of accumulated losses from the de-designated 2013 Interest Rate Swap, net of tax[e]	0.6	—	1.2	—
Revaluation of derivative financial instruments, net of reclassifications into earnings, net of tax[f]	—	0.2	—	(0.7)
Other comprehensive income, net	4.5	4.8	14.4	8.4
Total comprehensive (loss) income	$(32.0)	$ 13.1	$(59.5)	$ 27.7
Basic (loss) earnings per common share:				
Continuing operations	$(0.70)	$ 0.21	$(1.42)	$ 0.41
Discontinued operations	—	(0.05)	0.01	(0.04)
Net (loss) income	$(0.70)	$ 0.16	$(1.41)	$ 0.37
Diluted (loss) earnings per common share:				
Continuing operations	$(0.70)	$ 0.21	$(1.42)	$ 0.41
Discontinued operations	—	(0.05)	0.01	(0.04)
Net (loss) income	$(0.70)	$ 0.16	$(1.41)	$ 0.37
Weighted average number of common shares outstanding:				
Basic	53,096,935	52,515,869	52,569,473	52,499,141
Diluted	53,096,935	52,592,368	52,569,473	52,621,066

(a) Net of tax expense of $0.7 million and $0.5 million for the three months ended June 30, 2017 and 2016, respectively, and $1.7 million and $0.6 million for the six months ended June 30, 2017 and 2016, respectively.

(b) Net of tax expense of $0.5 million and $0.4 million for the three months ended June 30, 2017 and 2016, respectively, and $0.9 million and $0.7 million for six months ended June 30, 2017 and 2016, respectively.

(c) This other comprehensive (loss) income component is included in the computation of net periodic benefit (income) costs. See Note 11, "Pension and Post-Retirement Benefits," for additional information regarding net periodic benefit (income) costs.

(d) Net of tax expense of $0.3 million for the six months ended June 30, 2017, respectively.

(e) Net of tax benefit of $0.3 million and $0.7 million for the three and six months ended June 30, 2017, respectively.

(f) Net of tax expense (benefit) of $0.1 million and $(0.4) million for the three and six months ended June 30, 2016, respectively.

See Accompanying Notes to Unaudited Consolidated Financial Statements

REVLON, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
(dollars in millions, except share and per share amounts)

	Common Stock	Additional Paid-In-Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Deficiency
Balance, January 1, 2017	$ 0.5	$ 1,033.2	$ (19.2)	$ (1,377.6)	$ (251.7)	$ (614.8)
Treasury stock acquired, at cost [(a)]	—	—	(2.5)	—	—	(2.5)
Stock-based compensation amortization	—	4.4	—	—	—	4.4
Net loss	—	—	—	(73.9)	—	(73.9)
Other comprehensive income, net [(b)]	—	—	—	—	14.4	14.4
Balance, June 30, 2017	$ 0.5	$ 1,037.6	$ (21.7)	$ (1,451.5)	$ (237.3)	$ (672.4)

(a) Pursuant to the share withholding provisions of the Fourth Amended and Restated Revlon, Inc. Stock Plan (the "Stock Plan"), certain senior executives, in lieu of paying certain withholding taxes on the vesting of restricted stock, authorized the withholding of an aggregate 89,620 shares of Revlon Class A Common Stock during the six months ended June 30, 2017, to satisfy certain minimum statutory tax withholding requirements related to the vesting of such shares. These withheld shares were recorded as treasury stock using the cost method, at a weighted average price per share of $27.67 during the six months ended June 30, 2017, based on the closing price of Revlon Class A Common Stock as reported on the New York Stock Exchange (the "NYSE") consolidated tape on each respective vesting date, for a total of $2.5 million. See Note 15, "Stock Compensation Plan" to the Consolidated Financial Statements in Revlon's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the SEC on March 3, 2017 (the "2016 Form 10-K") for details regarding restricted stock awards under the Stock Plan.

(b) See Note 13, "Accumulated Other Comprehensive Loss," regarding the changes in the accumulated balances for each component of other comprehensive loss during the six months ended June 30, 2017.

See Accompanying Notes to Unaudited Consolidated Financial Statements

REVLON, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in millions)

	Six Months Ended June 30, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (73.9)	$ 19.3
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	73.8	52.2
Foreign currency (gains) losses from re-measurement	(15.3)	4.2
Amortization of debt discount	0.6	0.7
Stock-based compensation amortization	4.4	3.3
(Benefit from) provision for deferred income taxes	(36.5)	5.5
Amortization of debt issuance costs	4.5	—

Revenue		100.0%	100.00%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods sold		57.2	56.1	54.9	54.9	54.5	54.4	56.7	60.2
	Gross profit	42.8	43.9	45.1	45.1	45.5	45.6	43.3	39.8
Operating expenses:									
	Research and development	18.9	15.6	13.7	12.4	12.1	12.9	14.4	19.9
	Selling and marketing	11.9	10.9	10.5	9.8	8.4	9.1	8.6	10.6
	General and administrative	4.3	3.9	4.0	3.8	3.2	3.9	3.2	4.1
	Settlement of accrued contract obligation			(3.7)					
	Deferred stock compensation costs						0.6	4.9	4.5
	Amortization of goodwill	0.5	0.4	0.3	0.3	0.3	6.0	16.5	20.7
	Amortization of intangible assets	0.1	0.1				0.2	0.3	0.5
	In-process research and development						10.8		
	Restructuring costs								4.2
	Goodwill impairment								467.5

CIENA s quarterly operating results have varied, and we expect them to vary in the future. The detailed discussion of risk factors below addresses the principal factors that have caused these variations in the past, and may cause similar variations in the future. See Risk Factors .

CIENA s revenues increased during each of the seven quarters beginning in the first quarter of fiscal 2000 through the third quarter of fiscal 2001 due to a strong demand across existing products and introduction of new products such as MultiWave CoreStream long-distance optical transport systems configured for both 2.5 Gbps and 10.0 Gbps transmission rates, and our intelligent optical core switching product the MultiWave CoreDirector. The decline in revenues during the fourth quarter of fiscal 2001 compared to the third quarter of fiscal 2001 was primarily the result of a reduction in sales of our long-distance optical transport systems partially offset by a continued increase in sales of our intelligent optical switching and multi-service access products, the MultiWave CoreDirector and MultiWave MetroDirector K2.

CIENA s gross margin percentage improved from the first quarter fiscal 2000 to the second quarter fiscal 2001 as a result of component cost reductions, production efficiencies, favorable product mix and relative stable sales pricing. The decline in gross margins in the third quarter of fiscal 2001 was primarily the result of increased inventory obsolescence costs due to the sudden decrease in demand for our older generation long-distance optical transport products. The further decline in gross margin during the fourth quarter of fiscal 2001 was primarily the result of increased production inefficiencies and costs due to lower demand requirements. CIENA s operating expenses have increased in each of the last eight quarters due to continued investments in research and development, selling and marketing, and infrastructure activities. During fiscal 2002, CIENA s operating expenses will continue to increase in absolute dollars and as percentage of revenue. We expect to preserve and enhance our market leadership and build on our installed base with new and additional products in conjunction with increased investments in selling, marketing, and customer service activities. See Risk Factors .

RISK FACTORS

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

Our Business Has Been Adversely Affected by Recent Developments in the Communications Industry and the Economy in General

For much of the last five years the market for our equipment has been influenced by the entry into the communications services business of a substantial number of new companies. In the United States this was due largely to changes in the regulatory environment, in particular those brought about by the Telecommunications Act of 1996. These new companies raised billions of dollars in capital, much of which they invested in new plants, causing an acceleration in the growth of the market for telecommunications equipment.

The last year or so has seen a reversal of this trend, including the failure of a large number of the new entrants and a sharp contraction of the availability of capital to the industry. This, in turn, has caused a substantial reduction in demand for telecommunications equipment, including our products.

This industry trend has been compounded by the slowing not only of the United States economy which is now in recession but the economies in virtually all of the countries in which we are marketing our products. Moreover, the economic uncertainty has been accentuated by the events of September 11, 2001. The combination of these factors has caused most of our customers to become more conservative in their capital investment plans and more uncertain about their future purchases. As a consequence, we are facing a market that is, both reduced in absolute size and more difficult to predict and plan for.

We expect the factors described above to affect our business, for at least several quarters if not longer, in several significant ways compared to the recent past:

- it is likely that our markets will be characterized by reduced capital expenditures by our customers;

- our ability to forecast the volume and product mix of our sales will be substantially reduced;

managing our expenditures will be significantly more difficult in light of the uncertainties surrounding in our business;

increased competition resulting from reduced demand will put substantial downward pressures on the pricing of our products, tending to reduce our profit margins;

increased competition has also enabled customers to insist on more favorable terms and conditions for sales, including extended payment terms or other financing assistance, as a condition of procuring their business; and

the result in any or combination of these factors could be reduced revenues and profitability and perhaps losses in particular periods or for the entire year.

Our Results Can Fluctuate Unpredictably

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

fluctuations in demand for our products;

changes in our pricing policies or the pricing policies of our competitors;

the timing and size of orders from customers;

changes in customers requirements, including changes or cancellations to orders from customers;

the introduction of new products by us or our competitors;

changes in the price or availability of components for our products;

readiness of customer sites for installation;

satisfaction of contractual customer acceptance criteria and related revenue recognition issues;

manufacturing and shipment delays and deferrals;

increased service, installation, warranty or repair costs;

the timing and amount of employer payroll tax to be paid on employee gains on stock options exercised; and

changes in general economic conditions as well as those specific to the telecommunications and intelligent optical networking industries.

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

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

Our Future Success Will Depend on Our Ability to Acquire New Customers

Historically, a large percentage of our sales have been made to emerging carriers, many of which have recently begun to experience severe financial difficulties. Consequently, we expect our sales to emerging carriers to be reduced, and our future success will depend on our ability to increase our sales to incumbent carriers, including, in the United States, the regional Bell operating companies (RBOCs), and abroad, the large, traditional telecommunications operators (TOs), many of which were formerly government-owned post, telephone and telegraph enterprises. These large companies typically require longer sales cycles, many have long-standing supplier relationships with other vendors, and our experience in selling to them is limited. If we do not succeed in penetrating this segment of the market, our business could suffer.

We May Not Be Able to Successfully Complete Development and Achieve Commercial Acceptance of New Products

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

completion of product development;

the qualification and multiple sourcing of critical components, including ASICs;

validation of manufacturing methods and processes;

extensive quality assurance and reliability testing, and staffing of testing infrastructure;

validation of software; and

establishment of systems integration and systems test validation requirements.

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

The markets for our MultiWave CoreDirector and MultiWave MetroDirector K2 product lines are relatively new. We are only beginning to establish commercial acceptance of these products, and we cannot be certain that the substantial sales and marketing efforts necessary to achieve commercial acceptance in traditionally long sales cycles will be successful. If the markets for these products do not develop, or the products are not accepted by the market, our business, financial condition and results of operations would suffer. We have recently written down the value of the goodwill associated with our acquisition of Cyras, the source of our MultiWave MetroDirector K2 product, in recognition of what we believe to be a significant and permanent decline in the market for these types of products.

We Face Intense Competition which Could Hurt Our Sales and Profitability

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

Because we sell systems that compete directly with product offerings of these companies, and in some cases displace or replace their equipment, we represent a competitive threat. The continued expansion of our product offerings with the MultiWave CoreDirector and MultiWave MetroDirector K2 product lines and enhancements to our MultiWave CoreStream and MultiWave Metro product lines likely will increase this perceived threat. The recent decline in the market for optical networking equipment has resulted in even greater competitive pressures. We expect that the aggressive tactics we have confronted on the part of many of these competitors will continue, and perhaps become more severe. These tactics include:

price discounting; particularly when a competitor is selling used equipment or inventory that a competitor has written down or written off;

early announcements of competing products and other marketing efforts;

one-stop shopping options;

- customer financing assistance;
- marketing and advertising assistance; and
- intellectual property disputes.

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

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

New competitors are emerging to compete with our existing products as well as our future products. We expect new competitors to continue to emerge as the optical networking market continues to expand. These companies may achieve commercial availability of their products more quickly due to the narrow and exclusive focus of their efforts. Several of these competitors have raised significant cash and they have in some cases offered stock in their companies, positions on technical advisory boards, or have provided significant vendor financing to attract new customers. Our inability to compete successfully against these companies would harm our business, financial condition and results of operations.

If We Fail to Respond Rapidly to Technological Changes, Our Products Will Become Obsolete, Damaging Our Short-Term Prospects and Threatening Our Long-Term Survival

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

Several of our new products, including the MultiWave CoreDirector, the MultiWave MetroDirector K2 and enhancements to the MultiWave CoreStream and MultiWave Metro, are based on complex technology which could result in unanticipated delays in the development, manufacturing or deployment of these products. Our LightWorks initiative, which involves modifying these products to enable customers to implement a new type of network architecture, entails similar development risks.

Our customers often require extensive testing of new products before accepting them, and we are typically unable to recognize revenue until the tests are completed satisfactorily. The certification process for new telecommunications equipment used in the networks of the RBOCs and TOs tends to be particularly lengthy and difficult. Complying with these certification requirements may involve unanticipated delays that could adversely affect the timing of our ability to sell our products to these larger carriers.

Concentration of Customers.

Although the number of customers who make purchases from us continues to grow, a substantial fraction of our revenues continues to come from sales to a small number of customers. In fiscal 2001, 50.5% of our revenues came from our two most significant customers, Sprint and Qwest. The loss of, or a substantial reduction in purchases by, either of these customers could reduce our revenues materially. Both of these companies have been affected to some extent by the current economic recession and the even more difficult conditions in the communications industry. The communications industry is, moreover, undergoing a period of consolidation. It is possible that either of these customers could become a party to a merger or other business combination. The distraction and uncertainty inevitably attendant on such a transaction could delay or alter decisions on network deployments or capital expenditures, and this could result in delayed or reduced purchases from us.

We Are Exposed to the Credit Risk of Our Customers

Industry and economic conditions have weakened the financial position of some of our customers. To sell to some of these customers we may be required to take risks of uncollectable accounts. While we monitor these situations carefully and attempt to take appropriate measures to protect ourselves, it is possible that we may have to write down or write off doubtful accounts. Such write-downs or write-offs, if large, could have a material adverse effect on our operating results and financial condition.

We also continue to experience demands from customer that we finance sales to them. While we have done only a limited amount of such financing in the past, the increasingly competitive environment in which we are now operating may require us to engage in more customer financing in the future. Our ability to recognize revenue from financed sales will depend on the relative financial condition of the specific customer, among other factors. Further, we will need to evaluate the collectability of receivables from these customers if their financial condition deteriorates in the future. Any change in the financial condition of customers to which we provide financing could have a material adverse effect on our operating results and financial condition.

Our Strategy Involves Pursuing Strategic Acquisitions and Investments that May Not Be Successful

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

Acquisitions and strategic investments involve numerous risks, including difficulties in integrating the operations, technologies, and products of the acquired companies; diversion of management s attention from our core business; potential difficulties in completing projects of the acquired company; the potential loss of key employees of the acquired company; and dependence on unfamiliar or relatively small supply partners. In addition acquisitions and strategic investments may involve risks of entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions and of obtaining insufficient revenues to offset increased expenses associated with acquisitions. Mergers and acquisitions are inherently risky. Not all of those we have made in the past have been successful; and it is possible that acquisitions we make in the future may be unsuccessful, even to the extent of materially and adversely affecting our business.

We Depend on a Limited Number of Suppliers, and for Some Items We Do Not Have a Substitute Supplier

We depend on a limited number of suppliers for components of our products, as well as for equipment used to manufacture and test our products. Our products include several high-performance components for which reliable, high-volume suppliers are particularly limited. Furthermore, some key optical and electronic components we use in our optical transport systems are currently available only from sole or limited sources, and in some cases, that source also is a competitor. Any delay in component availability for any of our products could result in delays in deployment of these products and in our ability to recognize revenues. These delays could also harm our customer relationships and our results of operations.

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

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

We Rely on Contract Manufacturers for Our Products

We rely on a small number of contract manufacturers to manufacture our MultiWave CoreDirector and MultiWave MetroDirector K2 product lines and some of the components for our other products. The qualification of these manufacturers is an expensive and time-consuming process, and these contract manufacturers build modules for other companies, including our competitors. In addition, we do not have contracts in place with many of these manufacturers. We may not be able to effectively manage our relationships with our manufacturers and we cannot be certain that they will be able to fill our orders in a timely manner. We provide forecasts of our demand to our contract manufacturers several months prior to scheduled delivery of products. If we overestimate our future product requirements, the contract manufacturers may have excess inventory, which would increase our costs. Conversely, if we underestimate our future product requirements the contract manufacturer may not have enough product to meet our customer requirements, and this could result in delays in the shipment of our products and our ability to recognize revenue. If we cannot effectively manage these manufacturers and forecast future demand, or if they fail to deliver components on time, our business may suffer.

Some of Our Suppliers Are Also Competitors

Some of our component suppliers are both primary sources for components and major competitors in the market for system equipment. For example, we buy components from Alcatel, Lucent Technologies, NEC Corporation, Nortel Networks, and Siemens AG. Each of these companies offers optical communications systems and equipment that are competitive with our products. A decline in reliability or other adverse change in these supply relationships could harm our business.

Our Ability to Compete Could Be Harmed If We Are Unable to Protect and Enforce Our Intellectual Property Rights or If We Infringe on Intellectual Property Rights of Others

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

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

Product Performance Problems Could Limit Our Sales Prospects

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

- costs associated with reworking our manufacturing processes;
- high service and warranty expenses;
- high inventory obsolescence expense;
- high levels of product returns;
- delays in collecting accounts receivable;
- reduced orders from existing customers; and
- declining interest from potential customers.

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

We Face Risks Associated with our International Operations

We market, sell and service our products globally. We have established offices around the world, including in North America, Europe, Latin America and in the Asia Pacific region. We will continue to expand our international operations and enter new international markets. This expansion will require significant management attention and financial resources to develop successfully direct and indirect international sales and support channels. We may not be able to maintain or increase international market demand for our products.

International operations are subject to inherent risks, and our future results could be adversely affected by a variety of uncontrollable and changing factors. These include greater difficulty in collecting accounts receivable and longer collection periods; difficulties and costs of staffing and managing foreign operations; the impact of recessions in economies outside the United States; unexpected changes in regulatory requirements; certification requirements, reduced protection for intellectual property rights in some countries; potentially adverse tax consequences; political and economic instability; trade protection measures and other regulatory requirements; service provider and government spending patterns; and natural disasters. Such factors could have a material adverse impact on our operating results and financial condition.

Leverage and Debt Service Obligations May Adversely Affect Our Cash Flow and Our Ability to Repay or Repurchase our Notes

We have approximately $840 million of outstanding principal indebtedness, primarily related to notes offered by us and the assumption of notes from the acquisition of Cyras Systems, Inc. As a result of this indebtedness, we have significant principal and interest payment obligations. There is the possibility that we may be unable to generate sufficient cash to pay the principal of, interest on and other amounts due in respect of our indebtedness, including the notes, when due. We may also add equipment loans and lease lines to finance capital expenditures and may obtain additional long-term debt, working capital lines of credit and lease lines.

Our leverage could have important negative consequences, including:

- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing;
- requiring the dedication of a substantial portion of our expected cash flow from operations to service our indebtedness, thereby reducing the amount of our expected cash flow available for other purposes, including capital expenditures;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete;
- placing us at a possible competitive disadvantage relative to less leveraged competitors and competitors that have better access to capital resources; and
- making it difficult or impossible for us to pay the principal amount of the notes at maturity or the repurchase price of the notes upon a change of control, thereby causing an event of default under the indenture.

Cyras Systems LLC, our wholly owned subsidiary, has $150 million of 4.5% convertible subordinated notes outstanding. In the event that the holders of the Cyras notes convert their notes into our common stock, we would have to issue a significant number of shares of additional common stock. Based on the exchange ratio for the Cyras acquisition of approximately 0.13, we will have to issue approximately 1,037,055 shares of our common stock if holders of the entire $150 million of convertible notes decided to convert their notes. At our current stock price it appears more likely that the holders of the Cyras notes will not elect to convert them into our common stock before March 31, 2002. As a result, it is probable that we will have to make an offer to repurchase the notes at 118.942% of their principal balance on April 30, 2002. If all of the note holders accept that offer, we will have to expend approximately $178 million of our cash and cash equivalents for the repurchase.

Our Stock Price May Exhibit Volatility

Our common stock price has experienced substantial volatility in the past, and is likely to remain volatile in the future. Volatility can arise as a result of the activities of short sellers and risk arbitrageurs, and may have little relationship to our financial results or prospects. Volatility can also result from any divergence between our actual or anticipated financial results and published expectations of analysts, and announcements that we, our competitors, or our customers may make.

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

Forward Looking Statements

Some of the statements contained, or incorporated by reference, in this annual report discuss future expectations, contain projections of results of operations or financial condition or state other forward-looking information. Those statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward-looking information is based on various factors and was derived using numerous assumptions. In some cases, you can identify these so-called forward-looking statements by words like may, will, should, expects, plans, anticipates, believes, estimates, predicts, continue or the negative of those words and other comparable words. You should be aware that those statements only reflect our predictions. Actual events or results may differ substantially. Important factors that could cause our actual results to be materially different from the forward-looking statements are disclosed throughout this report, particularly under the heading Risk Factors above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this amended report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Linthicum, County of Anne Arundel, State of Maryland, on the 15th day of May 2002.

CIENA CORPORATION

By: /s/ Gary B. Smith
Gary B. Smith
President, Chief Executive Officer
and Director

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INDEX TO EXHIBITS

Exhibit Number	Description
3.1 (1)	Certificate of Amendment to Third Restated Certificate of Incorporation
3.2 (1)	Third Restated Certificate of Incorporation
3.3 (1)	Amended and Restated Bylaws
3.5 (10)	Certificate of Amendment to Third Restated Certificate of Incorporation dated March 23, 1998
3.6 (10)	Certificate of Amendment to Third Restated Certificate of Incorporation dated March 16, 2000
3.7 (13)	Certificate of Amendment to Third Restated Certificate of Incorporation dated March 13, 2001
4.1 (1)	Specimen Stock Certificate
4.2 (3)	Rights Agreement dated December 29, 1997
4.3 (4)	Amendment to Rights Agreement
4.4 (11)	Amendment No. 2 to Rights Agreement dated September 13, 1998
4.5 (4)	Amendment No. 3 to Rights Agreement dated October 19, 1998
4.6 (12)	Indenture dated February 9, 2001 between CIENA Corporation and First Union National Bank for 3.75% convertible notes due February 1, 2008
4.7 (13)	Indenture dated August 18, 2000 between Cyras Systems, Inc. and State Street Bank and Trust Company for 4.50% convertible notes due August 15, 2005
4.8 (13)	First Supplemental Indenture dated November 27, 2000 to the Indenture dated August 18, 2000 between Cyras Systems, Inc. and State Street Bank and Trust Company for 4.50% convertible subordinated notes due August 15, 2005
4.9 (13)	Second Supplemental Indenture dated November 28, 2000 to the Indenture dated August 18, 2000 between Cyras Systems, Inc. and State Street Bank and Trust Company for 4.50% convertible subordinated notes due August 15, 2005
4.10 (13)	Third Supplemental Indenture dated March 29, 2001 between Cyras Systems, Inc., CIENA Corporation and State Street Bank and Trust Company to the Indenture dated August 18, 2000 between Cyras Systems, Inc. and State Street Bank and Trust Company for 4.50% convertible subordinated notes due August 15, 2005
10.1 (1)	Form of Indemnification Agreement for Directors and Officers
10.2 (14)	Amended and Restated 1994 Stock Option Plan
10.3 (1)	Form of Employee Stock Option Agreements
10.4 (1)	1996 Outside Directors Stock Option Plan
10.5 (1)	Forms of 1996 Outside Directors Stock Option Agreement
10.13 (1)	Employment Agreement dated April 9, 1994 between the Company and Patrick Nettles
10.18 (5)	Form of Transfer of Control/Severance Agreement
10.19 (6)	Lightera 1998 Stock Option Plan and Form of Stock Option Agreement
10.20 (7)	Omnia Communications, Inc. 1997 stock plan and form of agreements
10.21 (9)	Employment Agreement dated August 18, 1999 between the Company and Gary B. Smith
10.22 (9)	1999 Non-Officer Stock Option Plan and Form of Stock Option Agreement
10.24 (13)	Cyras Systems, Inc. 1998 Stock Plan as amended and form of Stock Option Agreement
10.25 (15)	Amendment Number 1 to the 1999 Non Officer Stock Option Plan
21 (15)	Subsidiaries of registrant
23.1 (15)	Consent of Independent Accountants

(1) Incorporated by reference from the Company s Registration Statement on Form S-1 (333-17729)
(2) Incorporated by reference from the Company s Registration Statement on Form S-1 (333-28525)
(3) Incorporated by reference from the Company s Form 8-K dated December 29, 1997.
(4) Incorporated by reference from the Company s Form 8-K dated October 14, 1998.
(5) Incorporated by reference from the Company s Form 10-K dated December 10, 1998.
(6) Incorporated by reference from the Company s Form 10-Q dated May 21, 1999.

(7) Incorporated by reference from the Company s Form 10-Q dated August 19, 1999.
(8) Confidential treatment has been granted by the Securities and Exchange Commission with respect to certain portions of these exhibits.
(9) Incorporated by reference from the Company s Form 10-K dated December 10, 1999.
(10) Incorporated by reference from the Company s Form 10-Q dated May 18, 2000.
(11) Incorporated by reference from the Company s Form 8-K dated September 14, 1998.
(12) Incorporated by reference from the Company s Form 10-Q dated February 15, 2001.
(13) Incorporated by reference from the Company s Form 10-Q dated May 17, 2001.
(14) Incorporated by reference from the Company s Form S-8 dates October 30, 2001.
(15) Filed as an exhibit to the Company s Form 10-K dated December 13, 2001.