CIENA CORP
Form 424B5
June 06, 2007

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Prospectus supplement to prospectus dated June 4, 2007.

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-143490

Ciena Corporation

$450,000,000
0.875% Convertible Senior Notes due 2017

The notes will bear interest at a rate of 0.875% per annum. We will pay interest on the notes on June 15 and December 15 of each year, beginning on December 15, 2007. The notes will mature on June 15, 2017.

Notes may be converted prior to maturity (unless earlier repurchased) at the option of the holder into shares of our common stock at the initial conversion rate of 26.2154 shares of our common stock per $1,000 in principal amount of notes, which is equal to an initial conversion price of approximately $38.15 per share.

Shares of our common stock are traded on The NASDAQ Global Select Market under the symbol CIEN. The closing sale price of our common stock on June 5, 2007 was $33.17 per share.

The notes are not redeemable prior to maturity.

You may require us to repurchase, for cash, all or a portion of your notes upon the occurrence of a fundamental change (as defined in this prospectus supplement) at a purchase price equal to 100% of their principal amount, plus accrued and unpaid interest, if any, to the repurchase date or, in certain cases, to convert your notes at an increased conversion rate based on the price paid per share of our common stock in a transaction constituting a fundamental change.

The notes will be our senior unsecured obligations and will rank pari passu with all of our other senior unsecured debt and senior to all of our future subordinated debt. The notes will be structurally subordinated to all present and future debt and other obligations of our subsidiaries. In addition, the notes are effectively subordinated to all of our present and future secured debt to the extent of the value of the collateral securing such debt.

We do not intend to apply for a listing of the notes on any national securities exchange or for inclusion of the notes on any automatic quotation system.

See Risk Factors beginning on page S-7 of this prospectus supplement to read about important factors you should consider before buying the notes.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per Note	Total
Initial public offering price	100.00 %	$450,000,000
Underwriting discount	2.25 %	$10,125,000
Proceeds to us, before expenses	97.75 %	$439,875,000

The public offering price set forth above does not include accrued interest, if any. Interest on the notes will accrue from the date of original issuance, expected to be June 11, 2007.

To the extent Deutsche Bank Securities Inc. sells more than $450,000,000 in principal amount of notes, Deutsche Bank Securities Inc. will have a five-day option to purchase up to an additional $50,000,000 in principal amount of notes from us at the offering price less the underwriting discount.

Deutsche Bank Securities Inc. expects to deliver the notes through The Depository Trust Company against payment in New York, New York on June 11, 2007.

Deutsche Bank Securities

The date of this prospectus supplement is June 6, 2007.

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Prospectus Supplement

Prospectus

You should rely only on the information provided or incorporated by reference in this prospectus supplement, the accompanying prospectus and any free writing prospectus we may authorize to be delivered to you. We have not authorized anyone to provide you with different or additional information. We are not making an offer to sell the notes in any jurisdiction where the offer or sale of the notes is not permitted. You should not assume that the information appearing in this prospectus supplement, the accompanying prospectus or the documents incorporated by reference is accurate as of any date other than their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

When used in this prospectus supplement, except where the context otherwise requires, the terms we, us and our refer to Ciena Corporation.

We have a 52 or 53 week fiscal year, which ends on the Saturday nearest to the last day of October in each year. For purposes of financial statement presentation, each fiscal year is described as having ended on October 31. Fiscal 2002, fiscal 2003, fiscal 2004, fiscal 2005 and fiscal 2006 each comprised 52 weeks.

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SUMMARY

The following summary is qualified in its entirety by the more detailed information included elsewhere in this prospectus supplement and the accompanying prospectus. Because this is a summary, it may not contain all the information that may be important to you. You should read the entire prospectus supplement and the accompanying prospectus, including Risk Factors beginning on page S-7, and the financial statements and the notes to those statements and other information incorporated by reference, before making a decision whether to invest in the notes.

The Company

Ciena Corporation is a supplier of communications networking equipment, software and services that support the delivery and transport of voice, video and data services. Our products are used in communications networks operated by telecommunications service providers, cable operators, governments and enterprises around the globe. We specialize in transitioning legacy communications networks to converged, next-generation architectures, capable of efficiently delivering a broader mix of high-bandwidth services. By improving network productivity, reducing costs and enabling integrated services offerings, our products create business and operational value for our customers.

During the past several years, we have taken a number of significant steps to position Ciena to take advantage of market opportunities we see arising from increased demand for a broader mix of high-bandwidth services and new communications applications. Consumer demand for high-speed voice, video and data services and enterprise demand for reliable and secure connectivity are driving network transition to more efficient, simplified network infrastructures, better suited to handle higher bandwidth, multiservice traffic. To pursue these opportunities, we have expanded our product portfolio and enhanced product functionality through internal development, acquisition and partnerships. We have sought to build upon our historical expertise in core optical networking by adding complementary products in the metro and access portions of communications networks. This strategy has enabled us to increase penetration of our historical telecommunications service provider customers with additional products, and allowed us to broaden our addressable markets to include customers in the cable, government and enterprise markets.

Our principal office is located at 1201 Winterson Road, Linthicum, Maryland 21090, and our telephone number is (410) 865-8500.

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The Offering

The following is a summary of some of the terms of the notes offered hereby. For a more complete description of the terms of the notes, see Description of the Notes in this prospectus supplement.

Issuer	Ciena Corporation
Securities Offered	$450,000,000 principal amount of 0.875% Convertible Senior Notes due 2017.
Over-allotment Option	To the extent the underwriter sells more than $450,000,000 in principal amount of notes, the underwriter will have a five-day option to purchase up to an additional $50,000,000 in principal amount of notes to cover such sales.
Interest	The notes will bear interest at an annual rate of 0.875%. Interest is payable on June 15 and December 15 of each year, beginning on December 15, 2007.
Maturity Date	June 15, 2017, unless earlier repurchased or converted.
Conversion Rate	The notes may be converted into shares of our common stock, initially at a conversion rate of 26.2154 shares of our common stock per $1,000 principal amount of notes (which is equivalent to an initial conversion price of approximately $38.15 per share) prior to maturity, unless earlier repurchased.
Ranking	The notes will be our senior unsecured obligations and will rank pari passu with all of our other senior unsecured debt and senior to all of our future subordinated debt. The notes will be structurally subordinated to all present and future debt and other obligations of our subsidiaries. In addition, the notes are effectively subordinated to all of our present and future secured debt.
No Right of Redemption	The notes are not redeemable prior to maturity.
Sinking Fund	None.
Repurchase at Option of Holder Upon a Fundamental Change	If we undergo a fundamental change (as defined under Description of the Notes Repurchase at Option of the Holder Upon a Fundamental Change), holders will, subject to certain exceptions, have the right, at their option, to require us to purchase for cash any or all of their notes at a price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest, if any, to the repurchase date.
Adjustment to Conversion Rate Upon a Fundamental Change	If a holder elects to convert notes in connection with a specified fundamental change, we will in certain circumstances increase the conversion rate by a specified number of additional shares, depending

on

the price paid per share for our common stock in such fundamental change transaction, as described under Description of the Notes Adjustment to Conversion Rate Upon a Fundamental Change.

Use of Proceeds

We estimate that the net proceeds from this offering, after deducting estimated fees and expenses and underwriting discounts and commissions, will be approximately $439.6 million ($488.4 million if the underwriter exercises its option to purchase additional notes in full).

We intend to use approximately $38.3 million of the net proceeds from this offering (or approximately $42.5 million if the underwriter exercises its option to purchase additional notes in full) to purchase a call spread option on our common stock that is intended to limit exposure to potential dilution from conversion of the notes.

We intend to use the remaining net proceeds from this offering for general corporate purposes. These purposes may include the repurchase of all or a portion of our outstanding 3.75% Convertible Senior Notes due 2008, or the repayment of the principal amount of those notes at maturity. We may acquire the outstanding 3.75% convertible notes through tender offers, open market purchases, privately negotiated transactions or otherwise. See Use of Proceeds.

Call Spread Option

In connection with this offering, we will purchase from Deutsche Bank AG, London Branch, an affiliate of Deutsche Bank Securities Inc., a call spread option on our common stock. This transaction is expected to reduce the potential dilution upon conversion of the notes. We intend to use approximately $38.3 million of the net proceeds from this offering to pay the net cost of the call spread option. The call spread option will cover approximately 11.8 million shares of our common stock, which is the number of shares that will initially be issuable upon conversion of the notes in full. If Deutsche Bank Securities Inc. exercises its option to purchase additional notes, we intend to increase the number of shares of common stock covered by the call spread option by a proportionate amount.

Deutsche Bank AG, London Branch and its affiliates expect to engage in hedging transactions with respect to the call spread option. These hedging transactions involve entering into various derivative transactions such as swaps, with the initial hedging activity involving derivatives structured to achieve a similar position as would result from purchases of shares.

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	These activities could have the effect of increasing or preventing a decline in the value of our common stock concurrently with or following the pricing of the notes. In addition, Deutsche Bank AG, London Branch (and/or its affiliates) may modify its hedge positions by entering into or unwinding various derivative transactions with respect to our common stock or by selling or purchasing our common stock in secondary market transactions following the pricing of the notes (including during any observation period related to the conversion of the notes), which could adversely impact the price of our common stock and of the notes or could have the effect of increasing or preventing a decline in the value of our common stock. Also, Deutsche Bank AG, London Branch (and/or its affiliates) may borrow shares in the stock loan market in advance of and around the time of the offering of the notes and may continue to borrow shares throughout the terms of the notes and the call spread option, which could adversely affect the market price of our common stock and other equity-linked securities.
Listing	Our common stock is traded on The NASDAQ Global Select Market under the symbol CIEN. We do not intend to list the notes on any exchange.
Risk Factors	**Investment in the notes involves risks. You should carefully consider the information under Risk Factors and all other information included in, or incorporated by reference into, this prospectus supplement and the accompanying prospectus before investing in the notes.**
Trustee, Paying Agent and Conversion Agent	The Bank of New York

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Summary Consolidated Financial Data

The summary consolidated historical financial data presented below (1) for each of the three fiscal years in the period ended October 31, 2006 are derived from our consolidated financial statements, which have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, and (2) as of April 30, 2006 and 2007 and for the six months ended April 30, 2006 and 2007 are derived from our unaudited condensed consolidated financial statements. You should read this table along with our annual report on Form 10-K for our fiscal year ended October 31, 2006 and our quarterly report on Form 10-Q for the fiscal quarter ended April 30, 2007. Our unaudited summary consolidated financial statements include all adjustments necessary for a fair presentation of such financial statements. Except as otherwise disclosed in our public filings, such adjustments are of a normal recurring nature. In the opinion of management, our interim financial statements have been prepared on the same basis as our audited consolidated financial statements. Interim results are not necessarily indicative of results of operations for the full year.

Balance Sheet Data:

	Year Ended October 31,			As of April 30,	
	2004	2005	2006	2006	2007
				(unaudited)	
			(in thousands)		
Cash, cash equivalents, short and long term investments	$ 1,268,823	$ 1,093,487	$ 1,199,964	$ 1,222,730	$ 1,222,515
Total assets	2,137,054	1,675,229	1,839,713	1,820,138	1,923,056
Current convertible notes payable					542,262
Long-term obligations, excluding current portion	824,053	761,398	924,484	919,675	376,955
Stockholders equity	$ 1,154,422	$ 735,367	$ 753,626	$ 724,778	$ 792,127

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Statement of Operations Data:

	Year Ended October 31,			Six Months Ended April 30,	
	2004	2005	2006	2006	2007
				(unaudited)	
	(in thousands, except per share data)				
Revenue	$ 298,707	$ 427,257	$ 564,056	$ 251,605	$ 358,628
Cost of goods sold	226,954	291,067	306,275	138,244	203,170
Gross profit	71,753	136,190	257,781	113,361	155,458
Operating expenses:					
Research and development	205,364	137,245	111,069	58,318	61,495
Selling and marketing	112,310	115,022	104,434	53,229	55,057
General and administrative	28,592	33,715	47,476	21,142	22,008
Amortization of intangible assets	30,839	38,782	25,181	12,590	12,590
In-process research and development	30,200				
Restructuring costs (recoveries)	57,107	18,018	15,671	5,029	(1,200)
Goodwill impairment	371,712	176,600			
Long-lived asset impairment	15,926	45,862		(6)	
Recovery of sale, export, use tax liabilities and payments	(5,388)				
Provisions for (recovery of) doubtful accounts, net	(2,794)	2,602	(3,031)	(2,851)	(10)
Gain on lease settlement			(11,648)	(11,648)	
Total operating expenses	843,868	567,846	289,152	135,803	149,940
Income (loss) from operations	(772,115)	(431,656)	(31,371)	(22,442)	5,518
Interest and other income, net	25,936	31,294	50,245	20,459	31,742
Interest expense	(29,841)	(28,413)	(24,165)	(11,868)	(12,296)
Gain (loss) on equity investments, net	(4,107)	(9,486)	215	(733)	
Gain (loss) on extinguishment of debt	(8,216)	3,882	7,052	7,052	
Income (loss) before income taxes	(788,343)	(434,379)	1,976	(7,532)	24,964
Provision for income taxes	1,121	1,320	1,381	669	898
Net income (loss)	$ (789,464)	$ (435,699)	$ 595	$ (8,201)	$ 24,066
Basic net income (loss) per common share	$ (10.60)	$ (5.30)	$ 0.01	$ (0.10)	$ 0.28
Diluted net income (loss) per dilutive potential common share	$ (10.60)	$ (5.30)	$ 0.01	$ (0.10)	$ 0.26
Weighted average basic common shares outstanding	74,493	82,170	83,840	83,251	85,076

Weighted average dilutive potential common shares outstanding	74,493	82,170	85,011	83,251	93,491

RISK FACTORS

Your investment in the notes involves certain risks. Before deciding to invest, you should consider carefully, among other matters, the following discussion of risks and the other information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus.

Risk Factors Related to Our Business

If any of these risks are realized our business, prospects, financial condition, results of operations and our ability to service debt could be materially adversely affected.

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

The markets in which we compete for sales of networking equipment, software and services are extremely competitive, particularly the market for sales to telecommunications service providers. Competition in these markets is based on any one or a combination of the following factors: price, functionality, manufacturing capability, installation, services, existing business and customer relationships, scalability and the ability of products and services to meet the immediate and future network requirements of customers. A small number of very large companies have historically dominated the communications networking equipment industry. Many of our competitors have substantially greater financial, technical and marketing resources, greater manufacturing capacity and better established relationships with telecommunications carriers and other potential customers than we do. Recent consolidation activity among large networking equipment providers has caused some of our competitors to grow even larger, which may magnify their strategic advantages. On November 30, 2006, Alcatel completed its acquisition of Lucent. In June 2006, Nokia and Siemens agreed to combine their communications service provider businesses to create a new joint venture, and in January 2006, Ericsson completed its acquisition of certain key assets of Marconi Corporation plc s telecommunications business. These mergers may adversely affect our competitive position.

We also compete with a number of smaller companies that provide significant competition for a specific product, application, customer segment or geographic market. These competitors often base their products on the latest available technologies. Due to the narrower focus of their efforts, these competitors may achieve commercial availability of their products more quickly and may be more attractive to customers.

Increased competition in our markets has resulted in aggressive business tactics, including:

- significant price competition, particularly from competitors in Asia;
- early announcements of competing products and extensive marketing efforts;
- one-stop shopping options;
- competitors offering to repurchase our equipment from existing customers;
- customer financing assistance;
- marketing and advertising assistance;
- competitors offering equity ownership positions to customers; and

intellectual property assertions and disputes.

The tactics described above can be particularly effective in an increasingly concentrated base of potential customers such as telecommunications service providers. If we fail to compete successfully in our markets our sales and profitability would suffer.

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

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

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

- the level of demand for our products and the timing and size of customer orders, particularly from large telecommunications carrier customers;
- satisfaction of contractual customer acceptance criteria and related revenue recognition requirements;
- delays, changes to or cancellation of orders from customers;
- the availability of an adequate supply of components and sufficient manufacturing capacity;
- the introduction of new products by us or our competitors;
- the effects of consolidation of our customers, including our exposure to any changes in network strategy or reductions in capital expenditures for network infrastructure equipment;
- readiness of customer sites for installation; and
- changes in general economic conditions as well as those specific to our market segments.

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

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

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

- increased price competition;
- customer, product and service mix in any period;
- the effect of fluctuation in our services gross margin, which may decrease during the remainder of fiscal 2007 due to expected higher costs relating to the expansion of our internal resources for certain deployment activities;
- sales volume during the period;

charges for excess or obsolete inventory;

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

- our ability to continue to reduce product manufacturing costs;
- introduction of new products, with initial sales at relatively small volumes with resulting higher production costs; and
- increased warranty or repair costs.

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

A small number of telecommunication service provider customers account for a significant portion of our revenue, which could adversely affect our business, financial condition and results of operations.

Primarily as a result of recent combinations between large service providers, our revenue has become increasingly concentrated among a relatively small number of customers. For the second quarter of fiscal 2007, three customers each accounted for greater than 10% of our revenue and 48.2% in the aggregate.

Consolidation of large telecommunication service providers is resulting in increased concentration of customer purchasing power and may result in a smaller number of large network infrastructure builds. This in turn may lead to constraints on pricing, fluctuations in revenue, increases in costs to meet demands of large customers and pressure to accept onerous contract terms. In addition, because a significant part of our revenue remains concentrated among telecommunications service providers, our business could be exposed to risks associated with a market-wide change in business prospects, competitive pressures or other conditions affecting telecommunications carriers. Any of these developments, or the loss of, or significant reductions in spending by, one or more of our large customers could have a material adverse effect on our business, financial condition and results of operations.

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

In recent years we have sought to add large communication service providers as customers for our products, software and services. Our future success will depend on our ability to maintain and expand our sales to these existing customers and add new customers. Sales to large communications service providers typically involve lengthy sales cycles, protracted or difficult contract negotiations, and extensive product testing and network certification. We are sometimes required to assume terms or conditions that negatively affect pricing, payment and the timing of revenue recognition in order to consummate a sale. This may negatively affect the timing of revenue recognition, which would, in turn, negatively affect our revenue and results of operations. Communications service providers may ultimately insist upon terms and conditions that we deem too onerous or not in our best interest. Moreover, our customers are typically not contractually obligated to purchase a certain amount of products or services from us and often have the right to reduce, delay or even cancel previous orders. As a result, we may incur substantial expenses and devote time and resources to potential relationships that never materialize or result in lower than anticipated sales.

Investment of research and development resources in technologies for which there is not a matching market opportunity, or failure to sufficiently or timely invest in technologies for which there is market demand, would adversely affect our revenue and profitability.

The market for communications networking equipment is characterized by rapidly evolving technologies and changes in market demand. To succeed in this market, we must continue to invest in research and development to enhance our existing products and create new ones. There is often a lengthy period between commencing a development initiative and bringing the new or revised product to market, and during this time, technology or the market may move in directions we did not anticipate. There is a significant possibility, therefore, that at least some of our development decisions will not turn out as anticipated, and that our investment in a project will be unprofitable. There is also a possibility that we may miss a market opportunity because we fail to invest, or invest too late, in a new product or an enhancement of an existing product that could have been highly profitable. Changes in the market may also cause us to discontinue previously planned investments in products, which can have a disruptive effect on relationships with customers that were anticipating the availability of a new product or feature. If we fail to make the right investments and to make them at the right time, our competitive position may suffer and our revenue and profitability could be harmed.

Product performance problems could damage our business reputation and negatively affect our results of operations.

The development and production of new products, and enhancements to existing products, are complicated and often involve problems with software, components and manufacturing methods. Due to the complexity of these products, some of them can be fully tested only when deployed in communications networks or with other equipment. We have introduced new or upgraded products recently and expect to continue to enhance and extend our product portfolio. Product performance problems are often more acute for initial deployments of new products and