CIENA CORP
Form 10-Q
March 10, 2011

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

(Mark one)

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

For the quarterly period ended January 31, 2011

OR

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

For the transition period from ____________________ to _____________________

Commission file number: 0-21969

Ciena Corporation

(Exact name of registrant as specified in its charter)

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

(410) 865-8500

(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the 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 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 March 4, 2011**
common stock, $.01 par value	95,005,508

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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 January 31, 2010	2011
Revenue:		
Products	$ 149,054	$ 352,427
Services	26,822	80,881
Total revenue	175,876	433,308
Cost of goods sold:		
Products	76,669	214,401
Services	19,047	50,401
Total cost of goods sold	95,716	264,802
Gross profit	80,160	168,506
Operating expenses:		
Research and development	50,033	95,790
Selling and marketing	34,237	57,092
General and administrative	12,763	38,314
Acquisition and integration costs	27,031	24,185
Amortization of intangible assets	5,981	28,784
Restructuring costs	(21)	1,522
Change in fair value of contingent consideration		(3,289)
Total operating expenses	130,024	242,398
Loss from operations	(49,864)	(73,892)
Interest and other income (loss), net	(773)	6,265
Interest expense	(1,828)	(9,550)
Loss before income taxes	(52,465)	(77,177)
Provision for income taxes	868	1,879
Net loss	$ (53,333)	$ (79,056)
Basic net loss per common share	$ (0.58)	$ (0.84)
Diluted net loss per potential common share	$ (0.58)	$ (0.84)
Weighted average basic common shares outstanding	92,321	94,496

Weighted average dilutive potential common shares outstanding	92,321	94,496

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

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CIENA CORPORATION

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

	October 31, 2010	January 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 688,687	$ 625,820
Accounts receivable, net	343,582	369,718
Inventories	261,619	267,346
Prepaid expenses and other	147,680	135,058
Total current assets	1,441,568	1,397,942
Equipment, furniture and fixtures, net	120,294	123,956
Other intangible assets, net	426,412	389,275
Other long-term assets	129,819	138,471
Total assets	$ 2,118,093	$ 2,049,644
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 200,617	$ 202,236
Accrued liabilities	193,994	186,039
Deferred revenue	75,334	78,575
Total current liabilities	469,945	466,850
Long-term deferred revenue	29,715	26,901
Other long-term obligations	16,435	18,147
Convertible notes payable	1,442,705	1,442,619
Total liabilities	1,958,800	1,954,517
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; 94,060,300 and 94,935,342 shares issued and outstanding	941	949
Additional paid-in capital	5,702,137	5,717,268
Accumulated other comprehensive income	1,062	813
Accumulated deficit	(5,544,847)	(5,623,903)
Total stockholders equity	159,293	95,127

Total liabilities and stockholders equity	$ 2,118,093	$ 2,049,644

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

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CIENA CORPORATION

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

	Three Months Ended January 31,	
	2010	2011
Cash flows from operating activities:		
Net loss	$ (53,333)	$ (79,056)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization of premium on marketable securities	365	
Change in fair value of embedded redemption feature		(7,130)
Depreciation of equipment, furniture and fixtures, and amortization of leasehold improvements	5,871	14,543
Share-based compensation costs	8,282	9,864
Amortization of intangible assets	7,631	37,137
Provision for inventory excess and obsolescence	950	2,645
Provision for warranty	3,060	1,093
Other	471	851
Changes in assets and liabilities, net of effect of acquisition:		
Accounts receivable	12,627	(26,451)
Inventories	(8,295)	(8,372)
Prepaid expenses and other	9,204	(4,912)
Accounts payable, accruals and other obligations	12,672	(4,300)
Deferred revenue	4,966	427
Net cash provided by (used in) operating activities	4,471	(63,661)
Cash flows from investing activities:		
Payments for equipment, furniture, fixtures and intellectual property	(7,009)	(17,265)
Restricted cash	(5,520)	(3,505)
Purchase of available for sale securities	(63,591)	
Proceeds from maturities of available for sale securities	179,739	
Proceeds from sales of available for sale securities	18,000	
Deposit on business acquisition	(38,450)	
Receipt of contingent consideration related to business acquisition		16,394
Net cash provided by (used in) investing activities	83,169	(4,376)
Cash flows from financing activities:		
Proceeds from issuance of common stock and warrants	83	5,275
Net cash provided by financing activities	83	5,275
Effect of exchange rate changes on cash and cash equivalents	(248)	(105)
Net increase (decrease) in cash and cash equivalents	87,723	(62,762)

Cash and cash equivalents at beginning of period		485,705		688,687
Cash and cash equivalents at end of period	$	573,180	$	625,820
Supplemental disclosure of cash flow information				
Cash paid during the period for interest	$	2,560	$	2,458
Cash paid during the period for income taxes, net	$	736	$	1,698
Non-cash investing and financing activities				
Purchase of equipment in accounts payable	$	3,294	$	3,815
Fixed assets acquired under capital leases	$		$	1,456

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

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CIENA CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(1) INTERIM FINANCIAL STATEMENTS

The interim financial statements included herein for Ciena Corporation (Ciena) have been prepared by Ciena, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, financial statements included in this report reflect all normal recurring adjustments that Ciena considers necessary for the fair statement of the results of operations for the interim periods covered and of the financial position of Ciena at the date of the interim balance sheets. Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The October 31, 2010 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, 2010.

On March 19, 2010, Ciena completed its acquisition of substantially all of the optical networking and Carrier Ethernet assets of Nortel s Metro Ethernet Networks (MEN Business). Ciena s results of operations for the first quarter of fiscal 2010 do not include the results of the MEN Business. See Note 3 below.

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

(2) SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of the financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and judgments that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Estimates are used for purchase accounting, bad debts, valuation of inventories and investments, recoverability of intangible assets, other long-lived assets and goodwill, income taxes, warranty obligations, restructuring liabilities, derivatives, 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 maturities of three months or less to be cash equivalents. Restricted cash collateralizing letters of credit are included in other current assets and other long-term assets depending upon the duration of the restriction.

Investments

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

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Inventories

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

Segment Reporting

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

Long-lived Assets

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

Equipment, Furniture and Fixtures

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

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

Intangible Assets

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

Maintenance Spares

Maintenance spares are recorded at cost. Spares usage cost is expensed ratably over four years.

Concentrations

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

Historically, a large percentage of Ciena s revenue has been the result of sales to a small number of communications service providers. Consolidation among Ciena s customers has increased this concentration. Consequently, Ciena s accounts receivable are concentrated among these customers. See Notes 8 and 19 below.

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

Revenue Recognition

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

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

Software revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is probable. In instances where final acceptance criteria of the software is specified by the customer, revenue is deferred until there are no uncertainties regarding customer acceptance.

Ciena limits the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligations or subject to customer-specified return or refund privileges.

Accounting for multiple element arrangements entered into prior to fiscal 2011

Arrangements with customers may include multiple deliverables, including any combination of equipment, services and software. If multiple element arrangements include software or software-related elements that are essential to the equipment, Ciena allocates the arrangement fee among 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 (VSOE) 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 VSOE of fair value exists. VSOE is established based on Ciena s standard pricing and discounting practices for the specific product or service when sold separately. In determining VSOE, Ciena requires that a substantial majority of the selling prices for a product or service fall within a reasonably narrow pricing range. Changes to the elements in an arrangement and Ciena s ability to establish VSOE for those elements could affect the timing of revenue recognition. For all other multiple element arrangements, Ciena separates the elements into more than one unit of accounting if the delivered element(s) have value to the customer on a stand-alone basis, objective and reliable evidence of fair value exists for the undelivered element(s), and delivery of the undelivered element(s) is probable and substantially in Ciena s control. Revenue is allocated to each unit of accounting based on the relative fair value of each accounting unit or using the residual method if objective evidence of fair value does not exist for the delivered element(s). The revenue recognition criteria described above are applied to each separate unit of accounting. If these criteria are not met, revenue is deferred until the criteria are met or the last element has been delivered.

Accounting for multiple element arrangements entered into or materially modified in fiscal 2011

In October 2009, the Financial Accounting Standards Board, (FASB) amended the accounting standard for revenue recognition with multiple deliverables which provided guidance on how the arrangement fee should be allocated and allows the use of management s best estimate of selling price (BESP) for individual elements of an arrangement when VSOE or third-party evidence (TPE) is unavailable. Additionally, it eliminates the residual method of revenue recognition in accounting for multiple deliverable arrangements. The FASB also amended the accounting guidance for revenue arrangements with software elements to exclude from the scope of the software revenue recognition guidance, tangible products that contain both software and non-software components that function together to deliver the product s essential functionality.

Ciena adopted the new accounting guidance on a prospective basis for arrangements entered into or materially modified on or after November 1, 2010. Under the new guidance, Ciena separates elements into more than one unit of accounting if the delivered element(s) have value to the customer on a stand-alone basis, and delivery of the undelivered element(s) is probable and substantially in Ciena s control. Therefore, the new guidance allows for deliverables, for which revenue was previously deferred due to an absence of fair value, to be separated and recognized as revenue as delivered. Also, because the residual method has been eliminated, discounts offered by Ciena are allocated to all deliverables, rather than to the delivered element(s). Ciena s adoption of the new guidance for revenue arrangements changed the accounting for certain Ciena products that consist of hardware and software components, in which these components together provided the product s essential functionality. For arrangements involving these products entered into prior to fiscal 2011, Ciena recognized revenue based on software revenue recognition guidance.

Revenue for multiple element arrangements is allocated to each unit of accounting based on the relative selling price of each element, with revenue recognized when the revenue recognition criteria are met for each delivered element. Ciena determines the selling price for each deliverable based upon the selling price hierarchy for multiple-deliverable arrangements. Under this hierarchy, Ciena uses VSOE of selling price, if it exists, or TPE of selling price if VSOE does not exist. If neither VSOE nor TPE of selling price exists for a deliverable, Ciena uses its BESP for that deliverable.

VSOE is established based on Ciena s standard pricing and discounting practices for the specific product or service when sold separately. In determining VSOE, which exists across certain of Ciena s service offerings, Ciena requires that a substantial majority of the selling prices for a product or service fall within a reasonably narrow pricing range. Ciena has been unable to establish TPE of selling price because its go-to-market strategy differs from that of others in its markets, and the extent of customization and differentiated features and functions varies among comparable products or services from its peers. Ciena determines BESP based upon management-approved pricing guidelines, which consider multiple factors including the type of product or service, gross margin objectives, competitive and market conditions, and the go-to-market strategy; all of which can affect pricing practices.

Historically, for arrangements with multiple elements, Ciena was typically able to establish fair value for undelivered elements and so Ciena applied the residual method. Assuming the adoption of the accounting guidance above on a prospective basis for arrangements entered into or materially modified on or after November 1, 2009, the effect on revenue recognized for the three months ended January 31, 2010 would not have been materially different.

Warranty Accruals

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

Accounts Receivable, Net

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

Research and Development

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

Advertising Costs

Ciena expenses all advertising costs as incurred.

Legal Costs

Ciena expenses legal costs associated with litigation defense as incurred.

Share-Based Compensation Expense

Ciena measures and recognizes compensation expense for share-based awards based on estimated fair values on the date of grant. Ciena estimates the fair value of each option-based award on the date of grant using the Black-Scholes option-pricing model. This model is affected by Ciena s stock price as well as estimates regarding a number of variables including expected stock price volatility over the expected term of the award and projected employee stock option exercise behaviors. Ciena estimates the fair value of each share-based award based on the fair value of the underlying common stock on the date of grant. In each case, Ciena only recognizes expense to its consolidated statement of operations for those options or shares that are expected ultimately to vest. Ciena uses two attribution methods to record expense, the straight-line method for grants with service-based vesting and the graded-vesting method, which considers each performance period or tranche separately, for all other awards. See Note 17 below.

Income Taxes

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

In the ordinary course of business, transactions occur for which the ultimate outcome may be uncertain. In addition, tax authorities periodically audit Ciena s income tax returns. These audits examine significant tax filing positions, including the timing and amounts of deductions and the allocation of income tax expenses among tax jurisdictions. Ciena is currently under audit in India for 2007. Management does not expect the outcome of this audit to have a material adverse effect on the Company s consolidated financial position, result of operations or cash flows. Ciena s major tax jurisdictions and the earliest open tax years are as follows: United States (2007), United Kingdom (2005), Canada (2005) and India (2007). However, limited adjustments can be made to Federal tax returns in earlier years in order to reduce net operating loss carryforwards. Ciena classifies interest and penalties related to uncertain tax positions as a component of income tax expense. All of the uncertain tax positions, if recognized, would decrease the effective income tax rate.

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.

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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 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 information related to the fair value of Ciena s convertible notes, see Note 15 below.

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

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

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

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

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

Restructuring

From time to time, Ciena takes actions to align its workforce, facilities and operating costs with perceived market opportunities and business conditions. Ciena implements these restructuring plans and incurs the associated liability concurrently. Generally accepted accounting principles require that a liability for the cost associated with an exit or disposal activity be recognized in the period in which the liability is incurred, except for one-time employee termination benefits related to a service period of more than 60 days, which are accrued over the service period. See Note 5 below.

Foreign Currency

Some of Ciena s foreign branch offices and subsidiaries use the U.S. dollar as their functional currency, because Ciena, as the U.S. parent entity, exclusively funds the operations of these branch offices and subsidiaries. For those subsidiaries using the local currency as their functional currency, assets and liabilities are translated at exchange rates in effect at the balance sheet date, and the statement of operations is translated at a monthly average rate. Resulting translation adjustments are recorded directly to a separate component of stockholders equity. Where the monetary assets and liabilities are transacted in a currency other than the entity s functional currency, 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.

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Derivatives

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

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

Ciena calculates basic earnings per share (EPS) by dividing earnings attributable to common stock by the weighted-average number of common shares outstanding for the period. Diluted EPS includes other potential dilutive common stock that would occur if securities or other contracts to issue common stock were exercised or converted into common stock. Ciena uses a dual presentation of basic and diluted EPS on the face of its income statement. A reconciliation of the numerator and denominator used for the basic and diluted EPS computations is set forth in Note 16.

Software Development Costs

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

(3) BUSINESS COMBINATIONS

Acquisition of MEN Business

On March 19, 2010, Ciena completed its acquisition of the MEN Business. Ciena acquired the MEN Business in an effort to strengthen its technology leadership position in next-generation, converged optical Ethernet networking, accelerate the execution of its corporate and research and development strategies and enable Ciena to better compete with larger equipment vendors. The acquisition expands Ciena s geographic reach, customer relationships, and portfolio of network solutions.

In accordance with the agreements for the acquisition, the $773.8 million aggregate purchase price was subsequently adjusted downward by $80.6 million based upon the amount of net working capital transferred to Ciena at closing. As a result, Ciena paid $693.2 million in cash for the purchase of the MEN Business.

In connection with the acquisition, Ciena entered into an agreement with Nortel to lease the Lab 10 building on Nortel s Carling Campus in Ottawa, Canada (the Carling lease) for a term of ten years. The lease agreement contained a provision that allowed Nortel to reduce the term of the lease, and in exchange, Ciena could receive a payment of up to $33.5 million. This amount was placed into escrow by Nortel in accordance with the acquisition agreements. The fair value of this contingent refund right of $16.4 million was recorded as a reduction to the consideration paid, resulting in a purchase price of $676.8 million.

On October 19, 2010, Nortel issued a public announcement that it had entered into a sale agreement of its Carling campus with Public Works and Government Services Canada (PWGSC) and had been directed to exercise its early termination rights under the Carling lease, shortening the lease term from ten years to five years. As a result, and based on this change in circumstances and expected outcome probability, during the fourth quarter of fiscal 2010 Ciena recorded an unrealized gain of $13.8 million resulting in a fair value of $30.2 million for the contingent consideration right. During the first quarter of fiscal 2011, Ciena received notice of early termination from Nortel and the corresponding payment of $33.5 million described above, resulting in a gain of $3.3 million.

Given the structure of the transaction as an asset carve-out from Nortel, this transaction has resulted in a costly and complex integration. During fiscal 2010, Ciena incurred $101.4 million in transaction, consulting and third party service fees, $8.5 million in restructuring expense, and an additional $12.4 million in costs primarily related to purchases of capitalized information technology equipment. During the first quarter of fiscal 2011, Ciena incurred $24.2 million in transaction, consulting and third party service fees, $1.5 million in restructuring expense, and an additional $4.1 million primarily related to purchases of capitalized information technology equipment.

The following table summarizes the final allocation related to the MEN Business based on the estimated fair value of the acquired assets and assumed liabilities (in thousands):

Unbilled receivables	$ 7,136
Inventories	146,272
Prepaid expenses and other	32,517
Other long-term assets	21,924
Equipment, furniture and fixtures	41,213
Developed technology	218,774
In-process research and development	11,000
Customer relationships, outstanding purchase orders and contracts	260,592
Trade name	2,000
Deferred revenue	(28,086)
Accrued liabilities	(33,845)
Other long-term obligations	(2,644)
Total purchase price allocation	$ 676,853

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

Under the acquisition method of accounting, Ciena revalued the acquired finished goods inventory to fair value, which was determined to be most appropriately recognized as the estimated selling price less the sum of (a) costs of disposal, and (b) a reasonable profit allowance for Ciena s selling effort.

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

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

In-process research and development represents development projects that had not reached technological feasibility at the time of the acquisition. This in-process research and development was completed during the fourth quarter of fiscal 2010 and is being amortized over the period of seven years. Expenditures to complete the in-process research and development were expensed as incurred.

Customer relationships, outstanding purchase orders and contracts represent agreements with existing customers of the MEN Business. These intangible assets are expected to have estimated useful lives of nine months to seven years, with the exception of $14.6 million related to a contract asset for acquired in-process projects to be billed by Ciena and recognized as a reduction in revenue. As of January 31, 2011, Ciena has billed $13.4 million of these contract assets. The remaining $1.2 million will be billed during the second quarter of fiscal 2011. Trade name represents acquired product trade names that are expected to have a useful life of nine months.

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

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

The following unaudited pro forma financial information summarizes the results of operations for the period indicated as if Ciena s acquisition of the MEN Business had been completed as of the beginning of the period presented. These pro forma amounts (in thousands) do not purport to be indicative of the results that would have actually been obtained if the acquisition occurred as of the beginning of the periods presented or that may be obtained in the future.

	Quarter Ended January 31, 2010
Pro forma revenue	$ 431,912
Pro forma net loss	$ (224,370)

(4) GOODWILL

As of October 31, 2010 and January 31, 2011, Ciena did not have any goodwill on its Consolidated Balance Sheets.

(5) RESTRUCTURING COSTS

Ciena has committed to certain restructuring actions principally affecting Ciena s North America global product group and EMEA s global field and supply chain organizations. On November 16, 2010, Ciena announced a headcount reduction affecting approximately 50 employees in North America related to this restructuring plan. The action in North America resulted in a restructuring charge of $0.8 and the previously announced EMEA action resulted in a restructuring charge of $0.7 in the first quarter of fiscal 2011. The following table sets forth the activity and balance of the restructuring liability accounts for the three months ended January 31, 2011 (in thousands):

	Workforce reduction	Consolidation of excess facilities	Total
Balance at October 31, 2010	$ 1,576	$ 6,392	$ 7,968
Additional liability recorded	1,522		1,522
Cash payments	(2,112)	(501)	(2,613)
Balance at January 31, 2011	$ 986	$ 5,891	$ 6,877

Current restructuring liabilities	$	986	$	1,182	$	2,168
Non-current restructuring liabilities	$		$	4,709	$	4,709

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

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	Workforce reduction	Consolidation of excess facilities	Total
Balance at October 31, 2009	$ 170	$ 9,435	$ 9,605
Additional liability recorded	(21)		(21)
Cash payments	(82)	(752)	(834)
Balance at January 31, 2010	$ 67	$ 8,683	$ 8,750
Current restructuring liabilities	$ 67	$ 1,499	$ 1,566
Non-current restructuring liabilities	$	$ 7,184	$ 7,184

To consolidate Ciena s global distribution centers and related operations, on February 28, 2011, Ciena proposed changes in its distribution model that may affect 50 to 60 roles related to its supply chain operations and workforce in Monkstown, Northern Ireland. Execution of any specific reorganization or headcount reduction is subject to local legal requirements, including notification and consultation processes with employees and employee representatives. If these proposals move forward, Ciena expects this action to result in a restructuring charge in the range of $2.0 million to $3.0 million in the remainder of fiscal 2011.

(6) MARKETABLE SECURITIES

As of October 31, 2010 and January 31, 2011, Ciena did not have any investments in marketable debt securities.

(7) FAIR VALUE MEASUREMENTS

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

	January 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets:				
Embedded redemption feature	$	$	$ 11,350	$ 11,350
Total assets measured at fair value	$	$	$ 11,350	$ 11,350

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

	January 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets:				
Other long-term assets	$	$	$ 11,350	$ 11,350
Total assets measured at fair value	$	$	$ 11,350	$ 11,350

Ciena s Level 3 assets included in other long-term assets reflect the embedded redemption feature contained within Ciena s 4.0% convertible senior notes. See Note 15 below. The embedded redemption feature is bifurcated from Ciena s 4.0% convertible senior notes using the with-and-without approach. As such, the total value of the embedded redemption feature is calculated as the difference between the value of the 4.0% convertible senior notes (the Hybrid

Instrument) and the value of an identical instrument without the embedded redemption feature (the Host Instrument). Both the Host Instrument and the Hybrid Instrument are valued using a modified binomial model. The modified binomial model utilizes a risk free interest rate, an implied volatility of Ciena s stock, the recovery rates of bonds and the implied default intensity of the 4.0% convertible senior notes.

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

	Level 3
Balance at October 31, 2010	$ 34,415
Issuances	
Settlements	(30,195)
Changes in unrealized gain (loss)	7,130
Transfers into Level 3	
Transfers out of Level 3	
Balance at January 31, 2011	$ 11,350

(8) ACCOUNTS RECEIVABLE

As of October 31, 2010 and January 31, 2011, no customers accounted for greater than 10% of net trade accounts receivable. Allowance for doubtful accounts was $0.1 million and $0.4 million as of October 31, 2010 and January 31, 2011, respectively. Ciena has not historically experienced a significant amount of bad debt expense.

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(9) INVENTORIES

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

	October 31, 2010	January 31, 2011
Raw materials	$ 30,569	$ 27,618
Work-in-process	6,993	5,346
Finished goods	177,994	186,899
Deferred cost of goods sold	76,830	78,107
	292,386	297,970
Provision for excess and obsolescence	(30,767)	(30,624)
	$ 261,619	$ 267,346

Ciena writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated net realizable value based on assumptions about future demand and market conditions. During the first three months of fiscal 2011, Ciena recorded a provision for excess and obsolescence of $2.6 million, primarily related to changes in forecasted sales for certain products. Deductions from the provision for excess and obsolete inventory relate to disposal activities.

The following table summarizes the activity in Ciena s reserve for excess and obsolete inventory for the periods indicated (in thousands):

Three months ended January 31,	Balance at beginning of period	Provisions	Disposals	Balance at end of period
2010	$24,002	$950	$1,608	$23,344
2011	$30,767	$2,645	$2,788	$30,624

(10) PREPAID EXPENSES AND OTHER

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

	October 31, 2010	January 31, 2011
Prepaid VAT and other taxes	$ 46,352	$ 51,494
Deferred deployment expense	6,918	7,205
Product demonstration equipment, net	29,449	41,967
Prepaid expenses	15,087	12,230
Restricted cash	12,994	13,082
Contingent consideration	30,195	
Other non-trade receivables	6,685	9,080
	$ 147,680	$ 135,058

Prepaid expenses and other as of January 31, 2011 include $42.0 million related to product demonstration equipment, net. Depreciation of product demonstration equipment was $2.1 million for the first three months of fiscal 2011.

(11) EQUIPMENT, FURNITURE AND FIXTURES

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

	October 31, 2010	January 31, 2011
Equipment, furniture and fixtures	$ 360,908	$ 375,737
Leasehold improvements	49,595	50,825
	410,503	426,562
Accumulated depreciation and amortization	(290,209)	(302,606)
	$ 120,294	$ 123,956

Depreciation of equipment, furniture and fixtures, and amortization of leasehold improvements was $5.9 million and $12.4 million for the first three months of fiscal 2010 and 2011, respectively.

(12) OTHER INTANGIBLE ASSETS

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

		October 31, 2010			January 31, 2011	
	Gross Intangible	Accumulated Amortization	Net Intangible	Gross Intangible	Accumulated Amortization	Net Intangible
Developed technology	$ 417,833	$ (186,129)	$ 231,704	$ 417,833	$ (198,195)	$ 219,638
Patents and licenses	45,388	(45,167)	221	45,388	(45,202)	186
Customer relationships, covenants not to compete, outstanding purchase orders and contracts	323,573	(129,086)	194,487	323,573	(154,122)	169,451
Total other intangible assets	$ 786,794	$ (360,382)	$ 426,412	$ 786,794	$ (397,519)	$ 389,275

The amortization expense of finite-lived other intangible assets was $7.6 million and $37.1 million for the first three months of fiscal 2010 and 2011, respectively. Expected future amortization of finite-lived other intangible assets for the fiscal years indicated is as follows (in thousands):

Period ended October 31,	
2011 (remaining nine months)	$ 59,532
2012	73,564
2013	71,145
2014	56,987
2015	52,714
Thereafter	75,333
	$ 389,275

(13) OTHER BALANCE SHEET DETAILS

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

	October 31, 2010	January 31, 2011
Maintenance spares inventory, net	$ 53,654	$ 53,252
Deferred debt issuance costs, net	28,853	27,483
Embedded redemption feature	4,220	11,350
Restricted cash	37,796	41,213
Other	5,296	5,173
	$ 129,819	$ 138,471

Deferred debt issuance costs are amortized using the straight line method, which approximates the effect of the effective interest rate method, through the maturity of the related debt. Amortization of debt issuance costs, which is included in interest expense, was $0.6 million and $1.3 million during the first three months of fiscal 2010 and fiscal 2011, respectively.

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

	October 31, 2010	January 31, 2011
Warranty	$ 54,372	$ 48,565
Compensation, payroll related tax and benefits	39,391	34,938
Vacation	20,412	21,854
Current restructuring liabilities	2,784	2,168
Interest payable	4,345	10,172
Other	72,690	68,342
	$ 193,994	$ 186,039

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

Three months ended January 31,	Beginning Balance	Provisions	Settlements	Balance at end of period
2010	$40,196	3,060	(4,819)	$38,437
2011	$54,372	1,093	(6,900)	$48,565

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

As a result of the substantial completion of integration activities related to the MEN Acquisition, Ciena consolidated certain support operations and processes during the first quarter of fiscal 2011, resulting in a reduction in costs to service future warranty obligations. As a result of the lower expected costs, Ciena reduced its warranty liability by $6.9 million, which had the effect of reducing the provisions in the table above.

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

	October 31, 2010	January 31, 2011
Products	$ 31,187	$ 40,044
Services	73,862	65,432
	105,049	105,476
Less current portion	(75,334)	(78,575)
Long-term deferred revenue	$ 29,715	$ 26,901

(14) FOREIGN CURRENCY FORWARD CONTRACTS

Ciena has previously used, and may in the future use, foreign currency forward contracts to reduce variability in non-U.S. dollar denominated expected cash flows. As of October 31, 2010 and January 31, 2011, there were no foreign currency forward contracts outstanding and Ciena did not enter into any foreign currency forward contracts during the first three months of fiscal 2011.

(15) CONVERTIBLE NOTES PAYABLE

The following table sets forth, in thousands, the carrying value and the estimated current fair value of Ciena s outstanding convertible notes:

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Description	January 31, 2011 Carrying Value	Fair Value
0.25% Convertible Senior Notes due May 1, 2013	$ 216,210	$ 208,643
4.0% Convertible Senior Notes due March 15, 2015 (1)	376,409	489,332
0.875% Convertible Senior Notes due June 15, 2017	500,000	433,600
3.75% Convertible Senior Notes due October 15, 2018	350,000	455,875
	$ 1,442,619	$ 1,587,450

(1) Includes unamortized bond premium related to embedded redemption feature

The fair value reported above is based on the quoted market price for the notes on the date above.

(16) EARNINGS (LOSS) PER SHARE CALCULATION

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

Numerator

	Quarter Ended January 31, 2010	2011
Net loss	$ (53,333)	$ (79,056)

Denominator

	Quarter Ended January 31, 2010	2011
Basic weighted average shares outstanding	92,321	94,496
Dilutive weighted average shares outstanding	92,321	94,496

EPS

	Quarter Ended January 31, 2010	2011
Basic EPS	$ (0.58)	$ (0.84)
Diluted EPS	$ (0.58)	$ (0.84)

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

Weighted average shares excluded from EPS Denominator due to anti-dilutive effect	Quarter Ended January 31, 2010	2011
Shares underlying stock options, restricted stock units and warrants	7,494	6,447
0.25% Convertible Senior Notes due May 1, 2013	7,539	5,470
4.0% Convertible Senior Notes due March 15, 2015		18,396
0.875% Convertible Senior Notes due June 15, 2017	13,108	13,108
3.75% Convertible Senior Notes due October 15, 2018		17,355
Total excluded due to anti-dilutive effect	28,141	60,776

(17) SHARE-BASED COMPENSATION EXPENSE

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

2008 Plan

Ciena has previously granted stock options and restricted stock units under its 2008 Plan. Pursuant to Board and stockholder approval, effective April 14, 2010, Ciena amended its 2008 Plan to (i) increase the number of shares available for issuance by five million shares; and (ii) reduce from 1.6 to 1.31 the fungible share ratio used for counting full value awards, such as restricted stock units, against the shares remaining available under the 2008 Plan. As of January 31, 2011, there were approximately 4.1 million shares authorized and remaining available for issuance under the 2008 Plan.

2010 Inducement Equity Award Plan

On December 8, 2009, the Compensation Committee of the Board of Directors approved the 2010 Plan. The 2010 Plan is intended to enhance Ciena s ability to attract and retain certain key employees transferred to Ciena in connection with its acquisition of the MEN Business. The 2010 Plan authorizes the issuance of restricted stock or restricted stock units representing up to 2.25 million shares of Ciena common stock. Upon the March 19, 2011 termination of the 2010 Plan, any shares then remaining available shall cease to be available for issuance under the 2010 Plan or any other existing Ciena equity incentive plan. As of January 31, 2011, there were approximately 0.8 million shares authorized and available for issuance under the 2010 Plan.

Stock Options

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

	Shares Underlying Options Outstanding	Weighted Average Exercise Price
Balance as of October 31, 2010	5,002	$ 40.96
Granted		
Exercised	(229)	15.01
Canceled	(123)	107.86
Balance as of January 31, 2011	4,650	$ 40.47

The total intrinsic value of options exercised during the first three months of fiscal 2010 and fiscal 2011, was $0.3 million and $1.4 million, respectively. The weighted average fair value of each stock option granted by Ciena during the first three months of fiscal 2010 was $6.91. There were no stock options granted by Ciena during the first three months of fiscal 2011.

The following table summarizes information with respect to stock options outstanding at January 31, 2011, based on Ciena s closing stock price of $23.50 per share on the last trading day of Ciena s first fiscal quarter of 2011 (shares and intrinsic value in thousands):

	Options Outstanding at January 31, 2011				Vested Options at January 31, 2011			
Range of Exercise Price	Number of Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number of Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value
$ 0.01 - $ 16.52	725	5.94	$ 11.15	$ 8,952	553	5.21	$ 11.47	$ 6,651
$ 16.53 - $ 17.43	408	4.61	17.20	2,570	387	4.45	17.20	2,437
$ 17.44 - $ 22.96	381	4.22	21.76	663	360	4.04	21.84	599
$ 22.97 - $ 31.71	1,378	3.91	29.43		1,326	3.79	29.47	
$ 31.72 - $ 46.90	840	5.27	39.36		735	5.05	39.59	
$ 46.91 - $ 73.78	435	1.84	59.74		435	1.84	59.74	
$ 73.79 - $ 586.25	483	0.68	135.09		483	0.68	135.09	
$ 0.01 - $ 586.25	4,650	4.03	$ 40.47	$ 12,185	4,279	3.72	$ 42.12	$ 9,687

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 did not grant any option-based awards during the first quarter of fiscal 2011. During the first quarter of fiscal 2010, Ciena estimated 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 January 31, 2010
Expected volatility	61.9%
Risk-free interest rate	2.4 - 2.9%
Expected life (years)	5.3 - 5.5
Expected dividend yield	0.0%

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

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

The expected life of employee stock options represents the weighted-average period the stock options are expected to remain outstanding. Ciena uses historical information about specific exercise behavior of its grantees to determine the expected term.

The dividend yield assumption is based on Ciena s history and expectation of 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.

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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 recipient 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, 2010	5,191	$13.81	$71,681
Granted	1,510		
Vested	(507)		
Canceled or forfeited	(313)		
Balance as of January 31, 2011	5,881	$15.16	$89,119

The total fair value of restricted stock units that vested and were converted into common stock during the first three months of fiscal 2010 and fiscal 2011 was $5.4 million and $10.8 million, respectively. The weighted average fair value of each restricted stock unit granted by Ciena during the first three months of fiscal 2010 and fiscal 2011 was $11.01 and $19.25, 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 re