

CIENA CORP  
Form 10-Q  
June 08, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended April 30, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-36250

Ciena Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization) 23-2725311 (I.R.S. Employer Identification No.)

7035 Ridge Road, Hanover, MD 21076

(Address of Principal Executive Offices) (Zip Code)

(410) 694-5700

(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  NO

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

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

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

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 June 3, 2016

common stock, \$0.01 par value 138,116,410



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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

CIENA CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Quarter Ended April 30,		Six Months Ended April 30,	
	2016	2015	2016	2015
Revenue:				
Products	\$523,978	\$511,880	\$981,567	\$934,195
Services	116,739	109,722	232,265	216,569
Total revenue	640,717	621,602	1,213,832	1,150,764
Cost of goods sold:				
Products	291,778	286,898	552,260	523,446
Services	65,846	62,293	127,029	124,612
Total cost of goods sold	357,624	349,191	679,289	648,058
Gross profit	283,093	272,411	534,543	502,706
Operating expenses:				
Research and development	114,603	105,202	222,649	205,963
Selling and marketing	86,668	82,471	169,146	159,183
General and administrative	35,203	30,302	66,345	59,855
Acquisition and integration costs	2,285	1,020	3,584	1,020
Amortization of intangible assets	15,566	11,019	32,428	22,038
Restructuring costs	535	(17)	919	8,068
Total operating expenses	254,860	229,997	495,071	456,127
Income from operations	28,233	42,414	39,472	46,579
Interest and other income (loss), net	967	(5,549)	(7,809)	(13,782)
Interest expense	(12,608)	(12,947)	(25,318)	(26,608)
Income before income taxes	16,592	23,918	6,345	6,189
Provision for income taxes	2,595	3,265	3,894	4,315
Net income	\$13,997	\$20,653	\$2,451	\$1,874
Basic net income per common share	\$0.10	\$0.18	\$0.02	\$0.02
Diluted net income per potential common share	\$0.10	\$0.17	\$0.02	\$0.02
Weighted average basic common shares outstanding	137,950	113,555	137,313	110,578
Weighted average dilutive potential common shares outstanding	138,889	128,017	138,693	111,762

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

CIENA CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
 (in thousands)  
 (unaudited)

	Quarter Ended		Six Months	
	April 30,		Ended April 30,	
	2016	2015	2016	2015
Net income	\$13,997	\$20,653	\$2,451	\$1,874
Change in unrealized gain on available-for-sale securities, net of tax	234	(60 )	256	(24 )
Change in unrealized loss on foreign currency forward contracts, net of tax	3,984	3,041	1,464	(1,472 )
Change in unrealized loss on forward starting interest rate swap, net of tax	423	347	94	(2,218 )
Change in cumulative translation adjustment	7,516	8,837	4,693	(3,411 )
Other comprehensive income (loss)	12,157	12,165	6,507	(7,125 )
Total comprehensive income (loss)	\$26,154	\$32,818	\$8,958	\$(5,251)

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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

	April 30, 2016	October 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$922,033	\$790,971
Short-term investments	195,179	135,107
Accounts receivable, net	555,056	550,792
Inventories	190,861	191,162
Prepaid expenses and other	214,920	196,178
Total current assets	2,078,049	1,864,210
Long-term investments	125,233	95,105
Equipment, building, furniture and fixtures, net	248,649	191,973
Goodwill	267,681	256,434
Other intangible assets, net	184,920	202,673
Other long-term assets	77,051	84,656
Total assets	\$2,981,583	\$2,695,051
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$225,237	\$222,140
Accrued liabilities	283,096	316,283
Deferred revenue	116,799	126,111
Current portion of long-term debt	5,000	2,500
Total current liabilities	630,132	667,034
Long-term deferred revenue	70,233	62,962
Other long-term obligations	106,817	72,540
Long-term debt, net	1,505,389	1,271,639
Total liabilities	\$2,312,571	\$2,074,175
Commitments and contingencies (Note 22)		
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; 138,008,639 and 135,612,217 shares issued and outstanding	1,380	1,356
Additional paid-in capital	6,679,590	6,640,436
Accumulated other comprehensive loss	(15,619 )	(22,126 )
Accumulated deficit	(5,996,339 )	(5,998,790 )
Total stockholders' equity	669,012	620,876
Total liabilities and stockholders' equity	\$2,981,583	\$2,695,051

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.



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

	Six Months Ended	
	April 30,	
	2016	2015
Cash flows provided by operating activities:		
Net income	\$2,451	\$1,874
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of equipment, building, furniture and fixtures, and amortization of leasehold improvements	30,237	27,322
Share-based compensation costs	29,210	22,136
Amortization of intangible assets	40,488	26,439
Provision for inventory excess and obsolescence	20,104	10,834
Provision for warranty	9,563	7,658
Other	8,578	10,266
Changes in assets and liabilities:		
Accounts receivable	(4,865 )	(46,630 )
Inventories	(19,022 )	27,952
Prepaid expenses and other	(7,670 )	(15,621 )
Accounts payable, accruals and other obligations	(29,400 )	(28,982 )
Deferred revenue	(3,992 )	16,694
Net cash provided by operating activities	75,682	59,942
Cash flows used in investing activities:		
Payments for equipment, furniture, fixtures and intellectual property	(53,050 )	(21,899 )
Restricted cash	—	(44 )
Purchase of available for sale securities	(199,994 )	(130,239 )
Proceeds from maturities of available for sale securities	110,000	90,000
Settlement of foreign currency forward contracts, net	(4,834 )	10,364
Acquisition of business, net of cash acquired	(32,000 )	—
Purchase of cost method investment	—	(2,000 )
Net cash used in investing activities	(179,878 )	(53,818 )
Cash flows provided by (used in) financing activities:		
Proceeds from issuance of term loan, net	248,750	—
Payment of long term debt	(15,264 )	(8,190 )
Payment for debt issuance costs	(3,778 )	(247 )
Payment of capital lease obligations	(3,769 )	(4,745 )
Proceeds from issuance of common stock	9,968	9,980
Net cash provided by (used in) financing activities	235,907	(3,202 )
Effect of exchange rate changes on cash and cash equivalents	(649 )	(3,304 )
Net increase (decrease) in cash and cash equivalents	131,062	(382 )
Cash and cash equivalents at beginning of period	790,971	586,720
Cash and cash equivalents at end of period	\$922,033	\$586,338
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	\$19,620	\$21,882
Cash paid during the period for income taxes, net	\$6,991	\$5,811
Non-cash investing activities		
Purchase of equipment in accounts payable	\$11,437	\$11,733



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Equipment acquired under capital lease	\$3,012	\$—
Building subject to capital lease	\$8,993	\$10,032
Construction in progress subject to build-to-suit lease	\$21,606	\$—
Non-cash financing activities		
Conversion of 4.0% convertible senior notes, due March 15, 2015 into 8,898,387 shares of common stock	\$—	\$180,645

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

CIENA CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

(1) INTERIM FINANCIAL STATEMENTS

The interim financial statements included herein for Ciena Corporation and its wholly owned subsidiaries (“Ciena”) have been prepared by Ciena, without audit, pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). In the opinion of management, the 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 accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. The Condensed Consolidated Balance Sheet as of October 31, 2015 was derived from audited financial statements, but does not include all disclosures required by GAAP. However, Ciena believes that the disclosures are adequate to understand the information presented herein. 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 the notes thereto included in Ciena’s annual report on Form 10-K for the fiscal year ended October 31, 2015.

Ciena has a 52 or 53-week fiscal year, which ends on the Saturday nearest to the last day of October of each year. Fiscal 2015 and 2016 are 52-week fiscal years. For purposes of financial statement presentation, each fiscal year is described as having ended on October 31, and the fiscal quarters are described as having ended on January 31, April 30 and July 31 of each fiscal year.

Ciena previously identified prior period errors in the classification of foreign currency differences on changes in operating assets and liabilities for each quarterly period during the nine months ended July 31, 2015. The matters identified had no impact on any of the cash flow statement subtotals in any of the quarters, and were limited to equal and offsetting errors within the subtotal of cash provided by operations. Ciena concluded that the errors were not material to any of its previously issued financial statements. Ciena has revised the affected periods as they are presented in fiscal 2016 on a comparable basis to reflect the correction. The revisions resulted in net reclassifications within the cash flows from operating activities section of the cash flow from "Other" to “Changes in operating assets and liabilities” of \$10.4 million for the six-month period ending April 30, 2015.

(2) SIGNIFICANT ACCOUNTING POLICIES

Business Combinations

Ciena records acquisitions using the purchase method of accounting. All of the assets acquired, liabilities assumed, contractual contingencies and contingent consideration are recognized at their fair value as of the acquisition date. The excess of the purchase price over the estimated fair values of the net tangible and net intangible assets acquired is recorded as goodwill. The application of t