CIENA CORP
Form DEF 14A
January 28, 2004

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrantþ
Filed by a Party other than the Registranto
Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þ Definitive Proxy Statement

o Definitive Additional Materials
o Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

CIENA Corporation

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount previously paid:

(2) Form, schedule or registration statement no.:

(3) Filing party:

(4) Date filed:

CIENA CORPORATION

1201 Winterson Road
Linthicum, Maryland 21090

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD MARCH 10, 2004

To the Stockholders of CIENA Corporation:

The 2004 Annual Meeting of Stockholders of CIENA Corporation will be held at the BWI Airport Sheraton Hotel, 7032 Elm Road, Baltimore, Maryland, on Wednesday, March 10, 2004 at 3:00 p.m. for the following purposes:

1. To elect three (3) members of the Board of Directors to serve for three-year terms as Class I directors and until their respective successors are elected and qualified.

2. To consider and act upon such other business as may properly come before the meeting or any adjournments or postponements thereof.

Whether or not you expect to attend the meeting, please complete, sign, date and return the enclosed proxy as promptly as possible in the enclosed stamped envelope. If you elected to receive the 2004 Proxy Statement and Annual Report electronically over the Internet, you will not receive a paper proxy card and should vote online, unless you cancel your enrollment. If your shares are held in a bank or brokerage account, and you did not elect to receive the materials through the Internet, you may be eligible to vote your proxy electronically or by telephone. Please refer to the proxy statement for instructions.

By Order of the Board of Directors

Russell B. Stevenson, Jr.
Secretary

Linthicum, Maryland
January 28, 2004

PROXY STATEMENT

Annual Meeting of Stockholders
To Be Held March 10, 2004

January 28, 2004

This Proxy Statement is being furnished to stockholders of CIENA Corporation (the Corporation), 1201 Winterson Road, Linthicum, Maryland 21090, in connection with the solicitation by the Board of Directors of the Corporation of proxies to be voted at the Annual Meeting of Stockholders to be held at the BWI Airport Sheraton Hotel, 7032 Elm Road, Baltimore, Maryland, on Wednesday, March 10, 2004 at 3:00 p.m. Shares can be voted only if the stockholder is present in person or by proxy. Whether or not you plan to attend in person, you are encouraged to sign and return the enclosed proxy card or, if applicable, to vote electronically via the Internet or by telephone. The stockholder giving the proxy has the power to revoke the proxy at any time before it is exercised. If you decide to attend the Annual Meeting and wish to change your proxy vote, you may do so automatically by voting in person at the Annual Meeting.

Record Date and Voting Rights

Holders of the Corporation s Common Stock are the only security holders of the Corporation entitled to vote at the Annual Meeting. Only stockholders of record on January 20, 2004 will be entitled to vote at the meeting. At the close of business on January 20, 2004, there were 476,185,987 shares of the Common Stock of the Corporation outstanding and entitled to vote at the meeting, and there were 2,422 stockholders of record. Each stockholder of record on January 20, 2004 will have one vote for each share held of record on that date.

Vote Required for a Quorum and to Approve the Proposals

The representation in person or by proxy of at least a majority of the outstanding shares of Common Stock entitled to vote is necessary to provide a quorum at the meeting. Directors are elected by a plurality of the affirmative votes cast by the stockholders present at the meeting (in person or by proxy). Stockholders may not cumulate votes in the election of directors, and appraisal rights for dissenting stockholders are not applicable to the matters proposed. Unless otherwise indicated, executed proxies will be voted for the election of the three Directors nominated by management.

Abstentions and broker non-votes are counted as present in determining whether the quorum requirement is satisfied. However, abstentions and broker non-votes will be treated as neither a vote for nor a vote against the matter for purposes of determining whether the proposal has been approved, and thus will have no effect on the outcome.

The persons named as proxies are officers of the Corporation. All properly executed proxies returned in time to be counted at the Annual Meeting will be voted in accordance with the instructions contained therein, and if no choice is specified, such proxies will be voted in favor of the matters set forth in the accompanying Notice of Annual Meeting.

If you hold shares through a broker, bank or other nominee and you do not instruct them how to vote, your broker may have authority to vote your shares.

Recommendations of the Board of Directors

The Corporation s Board of Directors recommends that stockholders vote:

FOR each of the nominees for the Board of Directors listed below.

Voting Electronically via the Internet or by Telephone

If your shares are registered in the name of a bank or a brokerage firm, and you have elected to receive your Proxy Statement over the Internet, you may be eligible to vote your shares electronically over the

Internet or by telephone. A large number of banks and brokerage firms are participating in the ADP Investor Communications Services online program. This program provides eligible stockholders who receive a paper copy of this Proxy Statement the opportunity to vote via the Internet or by telephone. If your bank or brokerage firm is participating in ADP s program, your proxy card will provide instructions. Eligible stockholders who elected to receive the 2004 Proxy Statement and Annual Report on the Internet will be receiving an e-mail on or about January 29, 2004 with information on how to access stockholder information and instructions for voting.

Proxy Solicitation and Expenses

The Corporation will bear the cost of soliciting proxies. The Corporation has retained the services of The Altman Group, for a fee of $1,375 and reimbursement of reasonable out of pocket expenses, to assist in the solicitation. Copies of solicitation material may be furnished to brokers, custodians, nominees and other fiduciaries for forwarding to beneficial owners of shares of the Corporation s Common Stock, and normal handling charges may be paid for such forwarding service. Officers and other management employees of the Corporation, who will receive no additional compensation for their services, may solicit proxies by mail, e-mail, personal interview, and telephone.

PROPOSAL NO. 1

Election of Directors

General

The Board of Directors currently consists of nine members. The directors are divided into three classes, each class consisting of three directors and each class serving for a staggered three-year term. Class I, whose term expires at the Annual Meeting, consists of Dr. Nettles, Mr. Dillon and Ms. Fitt; Class II, whose term expires in 2005, consists of Ms. O Brien and Messrs. Cash and Smith; and Class III, whose term expires in 2006, consists of Messrs. Bradley, Davis and Taylor. At the Annual Meeting, three directors will be elected to fill positions in Class I. Dr. Nettles, Mr. Dillon and Ms. Fitt are nominees for election at the meeting. Each of the nominees for Class I, if elected, will serve for a term expiring at the 2007 Annual Meeting of stockholders.

Unless otherwise instructed on the proxy, it is the intention of the persons named in the proxy to vote the shares represented by each properly executed proxy for the election as directors of the persons named as nominees. The Board of Directors believes that all such nominees will stand for election and will serve if elected. However, if any of the persons nominated by the Board of Directors fails to stand for election or declines to accept election, proxies will be voted by the proxy holders for the election of such other person or persons as the Board of Directors may recommend.

The following table presents information concerning persons nominated for election as directors of the Corporation and for those directors whose terms of office will continue after the meeting.

Nominees for Election as a Director for Terms Expiring in 2007

Patrick H. Nettles, Ph.D.	Executive Chairman of the Board of Directors of the Corporation since May 2001. From October 2000 to May 2001, Dr. Nettles, age 60, was Chairman of the Board and Chief Executive Officer of the Corporation, and he was President, Chief Executive Officer and Director of the Corporation from April 1994 to October 2000. Dr. Nettles serves as a Trustee for the California Institute of Technology and also serves on the Advisory Board to the President at Georgia Institute of Technology. Dr. Nettles also serves on the board of directors of Axcelis Technologies, Inc.
John R. Dillon	Director of the Corporation since October 1999. Mr. Dillon, age 62, has served in a variety of positions at The Coca-Cola Company, Scientific-Atlanta, Inc. and Fuqua National. Mr. Dillon joined Cox

	Enterprises in 1980 and, until his retirement in 1996, served as Senior Vice President, Chief Financial Officer and director. Mr. Dillon serves as the Chairperson of the Audit Committee of the Board of Directors.
Lawton W. Fitt	Director of the Corporation since November 2000. Ms. Fitt, age 50, was appointed Secretary (Chief Executive) of the Royal Academy of Arts in London in October 2002. Responsible for the day to day operation of the Royal Academy, she is the first woman and the first American to have been appointed Secretary in the Academy s history. Prior to her appointment, Ms. Fitt was an investment banker with Goldman Sachs & Co. from 1979 to October 2002, where she was a partner from 1994 and a managing director from 1996 to October 2002. Ms. Fitt is a trustee of the Darden School Foundation. Ms. Fitt serves on the Audit Committee of the Board of Directors.

Directors Continuing in Office

Gary B. Smith	Chief Executive Officer of the Corporation since May 2001; President, Chief Operating Officer and Director since October 2000; and Senior Vice President, Chief Operating Officer from August 1999 to October 2000. Mr. Smith, age 43, served as Senior Vice President Worldwide Sales from September 1998 to August 1999, and was previously Vice President of International Sales since joining the Corporation in November 1997. He serves on the board of directors for the American Electronics Association and as a commissioner for the Global Information Infrastructure Commission. His term as a Director expires in 2005.
Stephen P. Bradley, Ph.D.	Director of the Corporation since April 1998. Professor Bradley, age 62, is the William Ziegler Professor of Business Administration and the Chairman of the Program for Management Development at the Harvard Business School. A member of the Harvard faculty since 1968, Professor Bradley is also Chairman of Harvard s Executive Program in Competition and Strategy. Professor Bradley serves on the Audit Committee and the Governance and Nominations Committee of the Board of Directors. His term as a Director expires in 2006.
Harvey B. Cash	Director of the Corporation since April 1994. Mr. Cash, age 65, is a general partner of InterWest Partners, a venture capital firm in Menlo Park, California that he joined in 1985. Mr. Cash serves on the board of directors of i2 Technologies Inc., Silicon Laboratories, Inc., Microtune, Inc., Liberté Investors Inc., and Airspan Networks, Inc. In addition, he is a member of the boards of several private corporations. Mr. Cash serves on the Compensation Committee and as the Chairperson of the Governance and Nominations Committee of the Board of Directors. Mr. Cash also serves as the lead outside director of the Board of Directors. His term as a Director expires in 2005.
Don H. Davis, Jr.	Director of the Corporation since March 2002. Mr. Davis, age 64, has been Chairman and CEO of Rockwell Automation, Inc. since 1998. (Rockwell International Corporation changed its name to

	Rockwell Automation, Inc. on June 29, 2001.) Effective February 4, 2004, Mr. Davis will leave his position as CEO, but will continue in his role as Chairman of Rockwell Automation. He previously served as Executive Vice President, President and COO, and Chairman and CEO of Rockwell International. In addition to the Rockwell Automation board, Mr. Davis serves on the boards of Illinois Tool Works, Inc. and Apogent Technologies Inc. He is also a member of the Business Council, the Business Roundtable, and The Conference Board. He is also a past chairman of the Board of Governors of the National Electrical Manufacturers Association, Washington, DC. Mr. Davis serves on the Compensation Committee of the Board of Directors. His term as a Director expires in 2006.
Judith M. O Brien	Director of the Corporation since July 2000. Since February 2001, Ms. O Brien, age 53, has been a Managing Director at Incubic LLC, a venture capital firm in Mountain View, California. From 1984 until 2001, she was a partner with Wilson Sonsini Goodrich & Rosati, where she specialized in corporate finance, mergers and acquisitions and general corporate matters. Ms. O Brien serves on the Governance and Nominations Committee and as the Chairperson of the Compensation Committee of the Board of Directors. Her term as a Director expires in 2005.
Gerald H. Taylor	Director of the Corporation since January 2000. Mr. Taylor, age 62, serves as a Managing Member of Mortonsgroup, LLC and serves on the board of directors of Lafarge North America Inc. From 1996 to 1998, Mr. Taylor was Chief Executive Officer of MCI Communications Corporation. Mr. Taylor serves on the Compensation Committee of the Board of Directors. His term as a Director expires in 2006.

Board and Board Committee Information

The Board has determined that, with the exception of Dr. Nettles and Mr. Smith, both of whom are employees of the Corporation, all of its members are independent directors as that term is defined in the listing standards of the Nasdaq Stock Market.

The Board welcomes communications from stockholders and has adopted a procedure for receiving and addressing them. Stockholders may send written communications to the entire Board or to individual members, addressing them to CIENA Corporation, 1201 Winterson Road, Linthicum, Maryland 21090, Attention: Corporate Secretary. Communications by e-mail should be addressed to ir@ciena.com and marked Attention: Corporate Secretary in the Subject field.

During fiscal 2003, the Board of Directors held five regular and three special meetings. The Board of Directors currently has three standing committees, each consisting entirely of independent directors: the Audit Committee, which held four meetings during fiscal 2003; the Compensation Committee, which held six meetings during fiscal 2003; and the Governance and Nominations Committee, which held four meetings during fiscal 2003. All of the directors attended at least 75% of the meetings of the Board of Directors and the committees on which they served. Six members of the Board of Directors attended the Corporation s 2003 Annual Meeting. The Corporation encourages, but does not require, members of the Board of Directors to attend Annual Meetings. Each of the three standing committees of the Board has a written charter, copies of which can be found on the Corporation s website at www.ciena.com.

Audit Committee

The Corporation s Audit Committee in fiscal 2003 consisted of Professor Bradley, Mr. Dillon and Ms. Fitt. The Board has determined that Mr. Dillon is an audit committee financial expert as defined in Item 401 of Regulation S-K.

Among its responsibilities, the Audit Committee appoints and establishes the compensation for the Corporation s independent public accountants, approves in advance all engagements with them to perform non-audit services, reviews and approves the procedures used by the Corporation to prepare its periodic reports, reviews and approves the Corporation s critical accounting policies, discusses the plans and reviews results of the audit engagement with the independent public accountants, reviews the independence of the independent public accountants, and oversees the Corporation s accounting processes including the adequacy of its internal accounting controls. To assist it in carrying out its responsibilities, the Audit Committee is authorized to retain the services of independent advisors.

Compensation Committee

The Corporation s Compensation Committee in fiscal 2003 consisted of Ms. O Brien and Messrs. Cash, Davis and Taylor. Mr. Davis was elected to serve on the Committee in August, 2003.

The Compensation Committee advises and assists management in developing the Corporation s overall compensation strategy to assure that it promotes stockholder interests, supports the Corporation s strategic and tactical objectives, and provides for appropriate rewards and incentives for the Corporation s management and employees. As part of that responsibility, the Committee reviews and approves the structure of the Corporation s bonus plans and administers the Corporation s stock option plans. To assist it in carrying out its responsibilities, the Compensation Committee is authorized to retain the services of independent advisors.

At the end of each fiscal year, the Compensation Committee evaluates the performance of the Executive Chairman and the Chief Executive Officer and establishes their compensation for the next fiscal year. The Compensation Committee also reviews with the Chief Executive Officer the performance of the other executive officers and approves their compensation for the next fiscal year. Finally, the Compensation Committee establishes the corporate goals under the bonus plan and, on occasion, determines whether there are reasons to waive aspects of those goals that were not achieved.

Governance and Nominations Committee

The Corporation s Governance and Nominations Committee in fiscal 2003 consisted of Ms. O Brien and Messrs. Bradley and Cash. The Committee reviews, develops and makes recommendations to the Board of Directors regarding various aspects of the Board of Directors and the Corporation s governance processes and procedures. It also recommends candidates for election to fill vacancies on the Board, including renominations of members whose terms are due to expire. The Committee is also responsible for making recommendations to the Board regarding the compensation of its non-employee members.

In discharging its responsibilities to nominate candidates for election to the Board of Directors, the Committee endeavors to identify, recruit and nominate candidates characterized by wisdom, maturity, sound judgment, excellent business skills and high integrity. The Committee seeks to assure that the Board is composed of individuals of diverse backgrounds who have a variety of complementary experience, training and relationships relevant to the needs of the Corporation. In nominating candidates to fill vacancies created by the expiration of the term of a member of the Board, the Committee determines whether the incumbent director is willing to stand for re-election. If so, the Committee evaluates his or her performance in office to determine suitability for continued service, taking into consideration the value of continuity and familiarity with the Corporation s business. In addition, the Committee considers recommendations for nomination from any reasonable source, including officers, directors and stockholders of the Corporation according to the foregoing standards. When appropriate, the Committee may retain executive recruitment firms to assist in identifying suitable candidates. Persons who wish to suggest potential nominees may address their suggestions in writing to CIENA Corporation, 1201 Winterson Road, Linthicum, Maryland 21090, Attention: Corporate Secretary.

Directors Fees

Non-employee members of the Board of Directors receive $1,500 for participation in each regular meeting of the Board of Directors and $1,000 for each committee meeting, and the chairs of each committee receive a supplemental fee of $500 for each committee meeting. In addition, non-employee members of the Board of Directors also receive an annual retainer of $20,000 paid quarterly. The Corporation reimburses each non-employee member of the Board of Directors for out-of-pocket expenses incurred in connection with attendance at meetings.

Under the Corporation s 1996 Outside Directors Stock Option Plan (the Directors Plan), non-employee Directors are eligible to receive stock options in consideration for their services. The Directors Plan provides that each non-employee Director receives an option grant for 60,000 shares of Common Stock upon joining the Board of Directors and an annual option grant for 20,000 shares of Common Stock at each Annual Meeting. Directors who have not served for at least twelve months as of the date immediately following the date of the last Annual Meeting receive a pro-rata annual option grant. The exercise price of options granted under the Directors Plan is equal to the fair market value of the Common Stock on the date of grant. Initial grants under the Directors Plan vest over a period of three years and annual grants vest in full on the first anniversary of the date of grant. Options generally must be exercised within ten years.

At the Annual Meeting held on March 12, 2003, each of the non-employee directors received an annual option grant to purchase 20,000 shares of Common Stock under the Directors Plan, each with an exercise price of $4.48 per share.

Recommendation of the Board of Directors

The Board of Directors unanimously recommends a vote FOR the election of the nominees listed above.

OWNERSHIP OF SECURITIES

The following table sets forth certain information as of December 31, 2003, unless otherwise specified, with respect to the beneficial ownership of the Corporation s Common Stock by each person who is known to the Corporation to have beneficial ownership of more than 5% of the outstanding shares of Common Stock, each director, the Corporation s Chief Executive Officer, the Named Executive Officers (as defined in the Summary Compensation Table below), and all directors and executive officers of the Corporation as a group.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percent of Class
FMR Corp.		
82 Devonshire Street		
Boston, Massachusetts 02109 (2)	50,772,827	10.67%
Citigroup Inc.		
399 Park Avenue		
New York, New York 10043 (3)	28,275,676	5.94%
Patrick H. Nettles, Ph.D.	4,704,557	*
Gary B. Smith	1,206,582	*
Stephen B. Alexander	676,279	*
Steve W. Chaddick	1,102,162	*
Joseph R. Chinnici	747,506	*
Stephen P. Bradley, Ph.D.	246,344	*
Harvey B. Cash (4)	495,242	*
Don H. Davis, Jr.	26,667	*
John R. Dillon	137,172	*
Lawton W. Fitt	126,120	*
Judith M. O Brien	148,826	*
Gerald H. Taylor	128,474	*
All officers and directors as a group (20 Persons)	11,697,883	2.42%

* Represents less than 1%.

(1) The persons named in this table have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them, subject to community property laws where applicable and except as indicated in the other footnotes to this table. Beneficial ownership is determined in accordance with SEC rules. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of Common Stock subject to options or warrants held by that person that are currently exercisable or exercisable within 60 days after December 31, 2003 are deemed outstanding. Such shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

(2) Based solely on Schedule 13G/ A filed by FMR Corp. on December 10, 2003. Based on such Schedule 13G/ A, Fidelity Management & Research Company, 82 Devonshire Street, Boston, Massachusetts 02109, an affiliate of FMR Corp., is the beneficial owner of 35,962,211 shares or 7.56% of the Class.

(3) Based solely on Schedule 13G filed jointly by Citigroup Inc. and Salomon Smith Barney Holdings Inc. on February 13, 2003. Based on such Schedule 13G, Salomon Smith Barney Holdings Inc., 388 Greenwich Street, New York, New York 10013, an affiliate of Citigroup Inc., is the beneficial owner of 27,438,532 shares or 5.77% of the Class.

(4) Includes 221,486 shares of Common Stock owned by InterWest Partners VI, L.P., which Mr. Cash may be deemed to beneficially own by virtue of his status as a Managing Director of InterWest Management Partners VI, LLC, which is the general partner of InterWest Partners VI, L.P., and 7,022 shares owned by InterWest Investors VI, L.P., which Mr. Cash may be deemed to beneficially own by virtue of his status as a Managing Director of InterWest Management Partners VI, LLC, which is the general partner of InterWest Investors VI, L.P. Mr. Cash disclaims beneficial ownership of the shares held by such entities except to the extent of his proportionate partnership interest therein. Mr. Cash has direct ownership of 201,484 shares of Common Stock, including 145,000 shares owned by the Harvey B. Cash self-directed IRA and 2,691 shares owned by InterWest Management Profit Sharing Retirement Plan FBO Harvey B. Cash.

COMPENSATION AND OTHER INFORMATION CONCERNING EXECUTIVE OFFICERS

Summary Compensation Table

The following table sets forth the compensation information for the Corporation s fiscal years ended October 31, 2001, 2002 and 2003 for the Corporation s Chief Executive Officer and the other four highest-paid executive officers whose salary and bonus for fiscal 2003 were in excess of $100,000 (collectively referred to as the Named Executive Officers).

		Annual Compensation		Long-Term Compensation Awards	
	Year	Salary	Bonus	Securities Underlying Options	All Other Compensation
Patrick H. Nettles	2003	$300,000	$	450,000	$17,785(1)
Executive Chairman of	2002	561,538			7,611
the Board of Directors	2001	700,000	700,000	348,425	2,412
Gary B. Smith	2003	$650,000	$	700,000	$ 6,002(1)
President, Chief Executive Officer	2002	650,000	3,000,000(2)	700,000	3,278
and Director	2001	569,231	575,000	992,225	561
Stephen B. Alexander	2003	$300,000	$	300,000	$ 1,110(1)
Senior Vice President,	2002	300,000		375,000	690
Chief Technology Officer	2001	278,461	140,000	509,600	1,207
Steve W. Chaddick	2003	$300,000	$	250,000	$ 1,812(1)
Senior Vice President,	2002	300,000		250,000	690
Corporate Strategy and Marketing	2001	286,538	143,750	280,450	1,207
Joseph R. Chinnici	2003	$350,000	$	300,000	$10,770(1)
Senior Vice President, Finance	2002	350,000		250,000	7,901
and Chief Financial Officer	2001	349,038	168,750	219,350	928

(1) Includes the following, as applicable:

(a) life insurance premiums paid by the Corporation on behalf of all employees, including the Named Executive Officers, for term life insurance coverage equal to two times the individual s annual salary and bonus, up to a maximum of $500,000;

(b) life insurance premiums paid by the Corporation on behalf of Mr. Smith pursuant to a supplemental term life insurance policy held by Mr. Smith;

(c) long-term disability premiums paid by the Corporation on behalf of Dr. Nettles and Messrs. Smith and Chinnici pursuant to long-term disability insurance policies held by those individuals;

(d) the annual cost of the death benefit for Messrs. Smith and Chinnici under the Corporation s Management Deferred Compensation Plan, pursuant to which participants may receive a death benefit of up to 15% of the first year of compensation deferrals; and

(e) fees received by Mr. Chinnici as a director of two of the Corporation s wholly-owned subsidiaries, CIENA Properties, Inc. and MultiWave Investment, Inc., for participation in regular meetings of the board of directors of those entities.

(2) In August 1999, when Mr. Smith was Senior Vice President of Worldwide Sales, in order to induce him to remain with the Corporation, the Corporation entered into an agreement with him that provided that if he remained in the Corporation s employ until at least August 18, 2002, he would be paid an incentive bonus of $3,000,000. The Corporation fulfilled its obligation under this agreement by paying Mr. Smith $3,000,000 on or about August 18, 2002.

Option Grants in Last Fiscal Year

The following table provides the specified information concerning options granted to the Named Executive Officers for the fiscal year ended October 31, 2003:

	Number of Securities Underlying Options Granted(1)	Percentage of Total Options Granted to Employees in Fiscal 2003	Exercise Price Per Share(2)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(3)	
					5%	10%
Patrick H. Nettles	450,000	2.03%	$4.53	11/19/2012	$1,282,002	$3,248,844
Gary B. Smith	700,000	3.15%	4.53	11/19/2012	1,994,225	5,053,757
Stephen B. Alexander	300,000	1.35%	4.53	11/19/2012	854,668	2,165,896
Steve W. Chaddick	250,000	1.13%	4.53	11/19/2012	712,223	1,804,913
Joseph R. Chinnici	300,000	1.35%	4.53	11/19/2012	854,668	2,165,896

(1) Options vest and become exercisable 25% on the last day of the month in which the first anniversary of the grant occurs and 2.084% per month thereafter.

(2) Options were granted at exercise prices equal to the fair market value of the Corporation s Common Stock at the close of business on the trading day prior to the date of grant. The exercise price is to be paid in cash or the Corporation s Common Stock.

(3) The dollar amounts set forth under these columns are the result of calculations of assumed annual rates of stock price appreciation of 5% and 10% from the date of grant to the date of expiration of such options. These assumptions are not intended to forecast future appreciation of the Corporation s stock price. The Corporation s stock price may increase or decrease in value over the time period set forth above.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The following table provides the specified information concerning option exercises in the last fiscal year and unexercised options held as of October 31, 2003 by the Named Executive Officers. As indicated in the footnotes to the table, during fiscal 2003 some of the Named Executive Officers voluntarily submitted for cancellation certain options with exercise prices significantly above the current price of the Corporation s Common Stock.

	Shares Acquired on Exercise	Value Realized (1)	Securities Underlying Unexercised Options at 10/31/2003 (2)		Value of Unexercised in-the-Money Options at 10/31/2003 (3)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Patrick H. Nettles		$	2,092,604	590,196	$9,205,000	$ 846,000
Gary B. Smith			869,835	1,420,089	5,933	1,316,000
Stephen B. Alexander			405,446	642,204	252,743	564,000
Steve W. Chaddick	16,950	70,682	688,238	498,887	1,435,586	470,000
Joseph R. Chinnici			575,232	543,568	1,787,408	564,000

(1) Calculated on the basis of the fair market value of the purchased shares on the exercise date, less the aggregate exercise price.

(2) In fiscal 2003, the following Named Executive Officers voluntarily cancelled out-of-the-money options to purchase the aggregate number of shares of Common Stock set forth below:

Dr. Nettles	328,125
Mr. Smith	665,625
Mr. Alexander	375,000
Mr. Chaddick	281,250
Mr. Chinnici	131,250

(3) Calculated on the basis of the fair market value of the underlying Common Stock as of October 31, 2003 of $6.41 per share, less the aggregate exercise price.

Accounting for Options

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (SFAS No. 123), Accounting for Stock-Based Compensation. SFAS No. 123 allows companies to account for stock-based compensation either under the provisions of SFAS No. 123 or using the intrinsic value method provided by Accounting Principles Board Opinion No. 25 (APB No. 25), Accounting for Stock Issued to Employees. If a company adopts the latter option, it is required to make pro forma disclosure in the footnotes to the financial statements using the measurement provisions of SFAS No. 123.

In light of the current debate about the appropriate accounting treatment of employee stock options, the Corporation has reviewed the desirability of continuing to follow APB No. 25, thus not recognizing an expense at the time options are granted. While the Corporation does not object in principle to recognizing a compensation expense at the time it grants a stock option, it believes that, at the current time, there does not exist a reliable, objective, and well-understood means of valuing options at the time they are granted. The most widely-used valuation methods require assumptions about stock price volatility and the effective life of a stock option. The value determined using these methods tends to be highly sensitive to these assumptions and can vary significantly depending on the assumptions made. Consequently these methods are particularly questionable in the case of companies like the Corporation that have volatile stock prices and a limited history on which to base the assumptions.

Accordingly, until the Financial Accounting Standards Board or the SEC has promulgated clearer rules than now exist governing the proper method of expensing options and valuing options issued under equity compensation plans, the Corporation has determined to continue to account for its stock-based compensation in accordance with the provisions of APB No. 25 as interpreted by FASB Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation, and Interpretation of APB Opinion No. 25, and to present the pro forma disclosures required by SFAS No. 123.

Equity Compensation Plan Information

The following table provides information as of October 31, 2003 with respect to the shares of the Corporation s Common Stock that may be issued under the Corporation s existing equity compensation plans.

Plan category	(A) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(B) Weighted-average exercise price of outstanding options, warrants and rights	(C) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in Column (A))
Equity compensation plans approved by security holders(1)	21,640,310	$ 9.37	71,808,357(2)(3)
Equity compensation plans not approved by security holders(4)	27,217,760	10.67	29,949,633(5)
Total	48,858,070	$10.10	101,757,990

(1) Consists of the following equity compensation plans:

1994 Third Amended and Restated Stock Option Plan (the 1994 Plan);

1996 Outside Directors Stock Option Plan;

2000 Equity Incentive Plan (the 2000 Plan);

2003 Employee Stock Purchase Plan; and

equity compensation plans assumed by the Corporation in connection with its merger with ONI Systems Corp., including, ONI 1999 Equity Incentive Plan, ONI 1998 Equity Incentive Plan and ONI 1997 Stock Option Plan (ONI Plans).

(2) The 1994 Plan incorporates an evergreen formula pursuant to which, on the last day of each of the Corporation s fiscal years (through fiscal 2004), the number of shares available for future issuance under the 1994 Plan automatically increases by 0.75% of the total number of shares of the Corporation s Common Stock then outstanding. The 2000 Plan incorporates an evergreen provision pursuant to which, on January 1 of each year, the aggregate number of shares reserved for issuance under the plan automatically increases by 5% of the total number of shares of the Corporation s Common Stock outstanding on December 31 of the preceding year, unless the Compensation Committee determines to reduce the increase in that year. By action of the Compensation Committee, the amount of the increase on January 1, 2004 was 2% of the Corporation s issued and outstanding shares or 9,464,297.

(3) There are no shares available for future issuance under the ONI Plans. However, any shares subject to options or other awards under the ONI Plans that are forfeited upon cancellation of the option or award become available for grant and issuance under the 2000 Plan.

(4) Consists of the following equity compensation plans:

1999 Non-Officer Stock Option Plan; and

equity compensation plans assumed by the Corporation in connection with mergers or acquisitions and under which the Corporation does not intend to grant options or other awards in the future, including the Cyras Systems, Inc. 1998 Stock Plan (the Cyras Plan), the Omnia Communications, Inc. 1997 Stock Plan, the Lightera Networks, Inc. 1998 Stock Plan and the WaveSmith 2000 Stock Option and Incentive Plan (collectively, the Assumed Plans).

(5) Excludes 2,268,905 shares available for future issuance under the Assumed Plans as of October 31, 2003.

1999 Non-Officer Stock Option Plan

The Board of Directors approved the 1999 Non-Officer Stock Option Plan (the 1999 Plan) on August 18, 1999. The 1999 Plan has not been submitted to the Corporation s stockholders for approval. The Compensation Committee of the Board of Directors administers the 1999 Plan.

A total of 57,175,278 shares of Common Stock are reserved for issuance under the 1999 Plan. Shares issued under the 1999 Plan again become available for issuance if an option granted under the plan is cancelled for any reason prior to exercise or vesting in full. As of October 31, 2003, options to purchase 26,029,311 shares of the Corporation s Common Stock were outstanding under the 1999 Plan and 29,949,633 shares of Common Stock remained available for future issuance under the 1999 Plan. The weighted-average exercise price of the outstanding options was $11.00 per share.

The 1999 Plan authorizes the grant of options to purchase the Corporation s Common Stock to full-time employees and other individuals, as determined by the Compensation Committee. However, the Corporation s executive officers and directors cannot be granted options under the 1999 Plan. The exercise price of options granted under the 1999 Plan must be at least 85% of the fair market value of the Corporation s Common Stock on the date of grant.

Each option will vest and become exercisable in installments over the option holder s period of service with the Corporation, as determined by the Compensation Committee.

Options granted under the 1999 Plan will become exercisable on an accelerated basis in the event that the Corporation is acquired and the options are not assumed or replaced by the acquiring entity.

The Compensation Committee may amend, suspend or terminate the 1999 Plan at any time. However, any amendment, suspension or termination of the 1999 Plan may not alter or impair the rights of an option holder without his or her consent.

Employment Agreements and Change-in-Control Arrangements

In April 1994, the Corporation entered into an employment agreement with Dr. Nettles. The employment agreement specifies that Dr. Nettles is an employee at will. In the event that he is terminated without cause, as defined in the employment agreement, he will receive a severance payment equal to his monthly base salary until the earlier of the expiration of six months or the commencement of employment with a person or entity other than the Corporation.

The Corporation has also entered into transfer of control/severance agreements with all of its executive officers, including Dr. Nettles and Messrs. Smith, Alexand