

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, 2001

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: 0-21969

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.)

1201 Winterson Road, Linthicum, MD
(Address of Principal Executive Offices)

21090
(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 (X) 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 May 17, 2001
Common stock, \$0.01 par value	326,517,967

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Item 1. Financial Statements

CIENA CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Quarter Ended		Six Months Ended	
	April 30, 2000	April 30, 2001	April 30, 2000	April 30, 2001
Revenue	\$185,679	\$425,396	\$337,892	\$777,385

Cost of goods sold	104,205	231,509	191,208	423,346
Gross profit	81,474	193,887	146,684	354,039
Operating expenses:				
Research and development (<i>exclusive of \$0, \$1,672, \$0, \$1,672 deferred stock compensation costs</i>)	29,056	54,344	57,890	96,848
Selling and marketing (<i>exclusive of \$0, \$491, \$0, \$491 deferred stock compensation costs</i>)	20,331	38,782	38,453	68,418
General and administrative (<i>exclusive of \$0, \$572, \$0, \$572 deferred stock compensation costs</i>)	7,176	16,787	14,047	27,932
Deferred stock compensation costs	—	2,735	—	2,735
Amortization of goodwill	799	25,373	1,598	26,271
Amortization of intangible assets	110	1,000	219	1,109
In-process research and development	—	45,900	—	45,900
Total operating expenses	57,472	184,921	112,207	269,213
Income from operations	24,002	8,966	34,477	84,826
Interest and other income, net	3,357	20,707	6,403	25,003
Interest expense	(89)	(7,128)	(185)	(7,215)
Income before income taxes	27,270	22,545	40,695	102,614
Provision for income taxes	8,863	73,225	13,226	100,048
Net income (loss)	\$ 18,407	\$ (50,680)	\$ 27,469	\$ 2,566
Basic net income (loss) per common share	\$ 0.07	\$ (0.17)	\$ 0.10	\$ 0.01
Diluted net income (loss) per common share and dilutive potential common share	\$ 0.06	\$ (0.17)	\$ 0.09	\$ 0.01
Weighted average basic common shares outstanding	280,162	306,329	278,600	296,758
Weighted average basic common and dilutive potential common shares outstanding	299,126	306,329	297,954	310,164

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

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

	October 31, 2000	April 30, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 143,187	\$1,144,212
Short-term investments	95,131	357,163
Accounts receivable, net	248,950	267,011
Inventories, net	141,279	276,020
Deferred income taxes	143,029	142,290
Prepaid expenses and other	41,438	57,035
Total current assets	813,014	2,243,731
Long-term investments	—	336,073
Equipment, furniture and fixtures, net	189,231	286,413
Goodwill, net	4,461	2,036,579
Other intangible assets, net	4,588	62,778
Other long term assets	15,907	64,849
Total assets	\$1,027,201	\$5,030,423

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 70,250	\$ 115,410
Accrued liabilities	84,163	128,668
Income taxes payable	7,483	7,231
Deferred revenue	10,731	18,149
Other current obligations	712	1,113
	<hr/>	<hr/>
Total current liabilities	173,339	270,571
Deferred income taxes	39,145	39,554
Convertible notes and other long-term obligations	4,882	864,193
	<hr/>	<hr/>
Total liabilities	217,366	1,174,318
	<hr/>	<hr/>
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; 980,000,000 shares authorized; 286,530,631 and 326,454,240 shares issued and outstanding	2,865	3,265
Additional paid-in capital	557,257	3,703,524
Deferred stock compensation	—	(95,721)
Notes receivable from stockholders	(30)	(7,784)
Accumulated other comprehensive income (loss)	(903)	(391)
Retained earnings	250,646	253,212
	<hr/>	<hr/>
Total stockholders' equity	809,835	3,856,105
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$1,027,201	\$5,030,423

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

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

	Six Months Ended April 30,	
	2000	2001
	<hr/>	<hr/>
Cash flows from operating activities:		
Net income	\$ 27,469	\$ 2,566
Adjustments to reconcile net income to net cash		
Provided by operating activities:		
Tax benefit related to exercise of stock options	38,695	62,108
Non-cash charges from equity transactions	20	—
Effect of accumulated other comprehensive income(loss)	(136)	43
In-process research and development	—	45,900
Depreciation	26,615	42,840
Amortization of goodwill, other intangibles, deferred stock		
Compensation and debt issuance costs	1,817	30,877
Provision for doubtful accounts	250	—
Provision for inventory excess and obsolescence	7,483	14,058
Provision for warranty and other contractual obligations	5,830	17,853
Changes in assets and liabilities:		
Accounts receivable	(53,673)	(18,061)
Inventories	(35,441)	(144,181)
Deferred income tax asset	(1,220)	37,940
Prepaid income tax	(15,735)	—
Prepaid expenses and other	(10,805)	(33,990)
Accounts payable and accruals	22,360	52,317
Income taxes payable	(8,697)	(252)
Deferred income tax liability	—	409
Deferred revenue and other obligations	(1,660)	7,418

Net cash provided by operating activities	3,172	117,845
Cash flows from investing activities:		
Additions to equipment, furniture and fixtures	(47,471)	(134,956)
Purchases of available-for-sale investments	(172,263)	(763,946)
Maturities of available-for-sale investments	144,045	165,841
Acquisition of businesses, inclusive of intellectual property and other intangibles, net of cash acquired	—	54,101
Minority equity investments	(37)	(8,005)
Net cash used in investing activities	(75,726)	(686,965)
Cash flows from financing activities:		
Net proceeds from (repayment of) other obligations	(149)	1,894
Proceeds from issuance of convertible subordinated notes	—	669,300
Proceeds from issuance of common stock and warrants	19,088	898,921
Repayment of notes receivable from stockholders	179	30
Net cash provided by financing activities	19,118	1,570,145
Net change in cash and cash equivalents	(53,436)	1,001,025
Cash and cash equivalents at beginning of period	143,440	143,187
Cash and cash equivalents at end of period	\$ 90,004	\$1,144,212

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

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CIENA CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)**

(1) SIGNIFICANT ACCOUNTING POLICIES

Interim Financial Statements

The interim financial statements included herein for CIENA Corporation (the “Company”) have been prepared by the Company, 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 which the Company considers necessary for the fair presentation of the results of operations for the interim periods covered and of the financial position of the Company at the date of the interim balance sheet. 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. However, the Company 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 the Company’s October 31, 2000 audited consolidated financial statements and notes thereto included in the Company’s Form 10-K annual report for the fiscal year ended October 31, 2000.

Revenue Recognition

CIENA recognizes product revenue in accordance with the shipping terms specified and where collection is probable. For transactions where CIENA has yet to obtain customer acceptance, revenue is deferred until the terms of acceptance are satisfied. Revenue for installation services is recognized as the services are performed unless the terms of the supply contract combine product acceptance with installation, in which case revenues for installation services are recognized when the terms of acceptance are satisfied and installation is completed. Revenues from installation service fixed price contracts are recognized on the percentage-of-completion method, measured by the percentage of costs incurred to date compared to estimated total costs for each contract. Amounts received in excess of revenue recognized are included as deferred revenue in the accompanying balance sheets. For transactions involving the sale of software, revenue is recognized in accordance with Statement of Position No. 97-2 (SOP 97-2), “Software Revenue Recognition”, including deferral of revenue recognition in instances where vendor specific objective evidence for undelivered elements is not determinable. For distributor sales where risks of ownership have not transferred, CIENA recognizes revenue when the product is shipped through to the end user.

Investments

CIENA's short-term and long-term investments are classified as available-for-sale as of the April 30, 2001 balance sheet date and are reported at fair value, with unrealized gains and losses, net of tax, recorded in accumulated other comprehensive income. Realized gains or losses and declines in value determined to be other than temporary, if any, on available-for-sale securities will be reported in other income or expense as incurred. As of the October 31, 2000 balance sheet date, CIENA's marketable securities were classified as held-to-maturity securities and were recorded at their amortized cost.

CIENA also has certain other minority equity investments in non-publicly traded companies. These investments are included in other assets on the balance sheet and are generally carried at cost as CIENA owns less than 20% of the voting equity and does not have the ability to exercise significant influence over these companies. As of October 31, 2000 and April 30, 2001, \$3.0 and \$11.1 million of these investments are included in other long-term assets, respectively. These investments are inherently high risk as the market for technologies or product manufactured by these companies are usually early stage at the time of the investment by CIENA and such markets may never be significant. CIENA could lose its entire investment in certain or all of these companies. CIENA monitors these investments for impairment and makes appropriate reductions in carrying values when necessary. No write-downs were recorded during fiscal 2000 or the six months ended April 30, 2001.

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Newly Issued Accounting Standards

In September 2000, the FASB issued SFAS No. 140 "Accounting for the Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 140 is effective for transfers occurring after March 31, 2001 and for disclosures relating to the securitization transactions and collateral for fiscal years ending after December 15, 2000. The Company does not currently believe that the adoption of SFAS No. 140 will have a significant impact on its financial position or results of operations.

(2) BUSINESS COMBINATIONS

On March 29, 2001, CIENA acquired all of the outstanding capital stock, and assumed the options and warrants of Cyras Systems, Inc. ("Cyras"), a privately held provider of next-generation optical networking systems based in Fremont, California. The purchase price was approximately \$2.2 billion and consisted of the issuance of approximately 26.1 million shares of CIENA common stock, the assumption of approximately 1.9 million stock options and the indirect assumption of \$150 million principal amount of Cyras's convertible subordinated indebtedness. Cyras is designing and developing next-generation optical networking solutions for telecommunications carriers. The Cyras K2 product, which has become CIENA's MetroDirector K2™, will enable carriers of metropolitan area networks to consolidate multiple legacy network elements into a single switching platform.

The transaction was recorded using the purchase accounting method with the allocation of the purchase price summarized below (in thousands):

Tangible assets	\$ 80,712
Deferred tax asset	37,201
Developed technology	47,700
In-process research and development	45,900
Workforce	11,600
Goodwill	2,058,270
Deferred stock compensation	98,456
Acquisition costs	(14,790)
Other assumed liabilities	(19,495)
Convertible subordinated notes	(167,700)
Employee loans	7,784
	<hr/>
Total purchase price	\$2,185,638

The amortization period for the goodwill and intangibles, based on management's estimate of the useful life of the acquired technology, is three to seven years.

In connection with the Cyras acquisition, the Company recorded a \$45.9 million charge in the period ended April 30, 2001 for in-process research and development. This generally represents the estimated value of purchased in-process technology related to Cyras's K2 product development that had not yet reached technological feasibility and no alternative future use at the time of the acquisition. The amount of purchase price allocated to in-process research and development was determined using the discounted cash flow method. This method consisted of estimating future net cash flows attributable to in-process K2 technology for a discrete projection period and discounting the net cash flows back to their present value. The discount rate includes a factor that takes into account the uncertainty surrounding the successful development of the purchased in-process technology.

The following unaudited pro forma data summarizes the results of operations for the period indicated as if the Cyras acquisition had been completed as of the beginning of the periods presented. The unaudited pro forma data gives effect to actual operating results prior to the acquisition, adjusted to include the pro forma effect of amortization of intangibles, deferred stock compensation

costs, the elimination of the charge for acquired in-process research and development, the tax effects to the pro forma adjustments and the recognition of the tax benefits arising from Cyras's net operating loss carryforwards. These pro forma amounts 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 (in thousands, except per share data).

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	Year Ended October 31, 2000	Six Months Ended April 30, 2001
Revenue	\$ 858,750	\$777,385
Net loss	\$(274,330)	\$ (93,999)
Diluted net loss per common share and dilutive potential common share	\$ (0.90)	\$ (0.32)

(3) CASH , SHORT-TERM AND LONG-TERM INVESTMENTS

Cash, short-term and long-term investments are comprised of the following (in thousands):

	April 30, 2001			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate bonds	\$ 218,794	\$ 512	\$ —	\$ 219,306
Asset backed obligations	39,711	110	—	39,821
Foreign debt securities	8,080	—	—	8,080
Commercial Paper	160,037	173	—	160,210
US Obligations	265,443	376	—	265,819
Money market funds	1,144,212	—	—	1,144,212
	<u>\$1,836,277</u>	<u>\$1,171</u>	<u>\$ —</u>	<u>\$1,837,448</u>
Included in cash and cash equivalents	\$1,144,212	\$ —	\$ —	\$1,144,212
Included in short-term investments	356,821	342	—	357,163
Included in long-term investments	335,244	829	—	336,073
	<u>\$1,836,277</u>	<u>\$1,171</u>	<u>\$ —</u>	<u>\$1,837,448</u>

As of October 31, 2000 the Company classified its investments as marketable debt securities held-to-maturity defined by Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Such investments were recorded at their amortized cost and had \$70,255 of unrealized gains and \$32,000 of unrealized loss.

	October 31, 2000
Commercial paper	\$ 90,745
U.S. government obligations	4,386
Money market funds	143,187
	<u>\$238,318</u>
Included in cash and cash equivalents	143,187
Included in short-term investments	95,131
	<u>\$238,318</u>

(4) INVENTORIES

Inventories are comprised of the following (in thousands):

	October 31, 2000	April 30, 2001
Raw materials	\$ 52,576	\$101,740
Work-in-process	48,300	76,669
Finished goods	58,641	122,886
	<u>159,517</u>	<u>301,295</u>
Less reserve for excess and obsolescence	(18,238)	(25,275)
	<u>\$141,279</u>	<u>\$276,020</u>

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(5) CONVERTIBLE NOTES PAYABLE

On February 9, 2001, CIENA completed a public offering of 3.75% convertible notes, in an aggregate principal amount of \$690 million, due February 1, 2008. Interest is payable on February 1 and August 1 of each year beginning August 1, 2001. The notes may be converted into shares of CIENA's common stock at any time before their maturity or their prior redemption or repurchase by CIENA. The conversion rate is 9.5808 shares per each \$1,000 principal amount of notes, subject to adjustment in certain circumstances. On or after the third business day after February 1, 2004, CIENA has the option to redeem all or a portion of the notes that have not been previously converted at the following redemption prices (expressed as percentage of principle amount):

Period	Redemption Price
Beginning on the third business day after February 1, 2004 and ending on January 31, 2005	102.143%
Beginning on February 1, 2005 and ending on January 31, 2006	101.607%
Beginning on February 1, 2006 and ending on January 31, 2007	101.071%
Beginning on February 1, 2007 and ending on January 31, 2008	100.536%

In August 2000, Cyras Systems Inc. issued \$150 million of 4 1/2% convertible subordinated notes due August 15, 2005. Interest is payable on February 15 and August 15 of each year, beginning February 15, 2001. CIENA indirectly assumed the convertible subordinated notes on March 29, 2001 as a result of its acquisition of Cyras. CIENA recorded the estimated fair value of the notes on the date of the acquisition at \$167.7 million. The notes may be converted into shares of CIENA's common stock at any time before their maturity or their prior redemption or repurchase by CIENA. The conversion rate is 6.9137 shares per each \$1,000 principal amount of notes, subject to adjustment in certain circumstances. Cyras Systems LLC is the successor to Cyras Systems Inc. and a wholly owned subsidiary of CIENA. If an IPO of Cyras LLC has not occurred on or before March 31, 2002, CIENA will be obligated to make an offer to repurchase the notes at 118.9% of the principal balance thereof on April 30, 2002. CIENA is accreting the redemption premium over the remaining period to April 30, 2002, such that the carrying value of the notes equals the redemption price at the date of the redemption obligation. Accretion of the redemption premium was \$0.9 million during the period ended April 30, 2001.

(6) EARNINGS PER SHARE CALCULATION

The following is a reconciliation of the numerators and denominators of the basic net income per common share ("basic EPS") and diluted net income per common and dilutive 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 common shares outstanding, stock options and warrants using the treasury stock method (in thousands except per share amounts):

	Quarter ended April 30,	
	2000	2001
Net income (loss)	\$ 18,407	\$ (50,680)
Weighted average shares-basic	<u>280,162</u>	<u>306,329</u>
Effect of dilutive securities:		
Employee stock options and warrants	18,964	—

Weighted average shares-diluted	299,126	306,329
Basic EPS	\$ 0.07	\$ (0.17)
Diluted EPS	\$ 0.06	\$ (0.17)

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	Six months ended April 30,	
	2000	2001
Net income	\$ 27,469	\$ 2,566
Weighted average shares-basic	278,600	296,758
Effect of dilutive securities:		
Employee stock options and warrants	19,354	13,406
Weighted average shares-diluted	297,954	310,164
Basic EPS	\$ 0.10	\$ 0.01
Diluted EPS	\$ 0.09	\$ 0.01

Stock options to purchase 0.2 million and 26.3 million shares of common stock were outstanding during the quarters ended April 30, 2000 and April 30, 2001, respectively, but were not included in the computation of diluted EPS as the effect would be anti-dilutive. In addition, stock options to purchase 0.1 million and 9.6 million shares of common stock were outstanding during the six months ended April 30, 2000 and April 30, 2001, respectively, but were not included in the computation of diluted EPS as the effect would be anti-dilutive.

(7) COMPREHENSIVE INCOME

The components of comprehensive income are as follows (in thousands):

	Quarter ended April 30,		Six months ended April 30,	
	2000	2001	2000	2001
Net income (loss)	\$18,407	\$(50,680)	\$27,469	\$2,566
Change in unrealized gain on available-for-sale securities, net of tax	—	761	—	761
Change in accumulated translation adjustments	(174)	(342)	(136)	(249)
Total comprehensive income (loss)	\$18,233	\$(50,261)	\$27,333	\$3,078

(8) STOCKHOLDERS'S EQUITY

Public Offerings

On February 9, 2001, CIENA completed a public offering of 11,000,000 shares of common stock at a price of \$83.50 per share less underwriters' discounts and commissions. Net proceeds from the public offering was approximately \$0.9 billion, after deducting underwriting discounts, commissions and offering expenses. Pending use of the net proceeds, the Company has invested them in interest bearing, investment grade securities.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This *Management's Discussion and Analysis of Financial Condition and Results of Operations* contains certain forward-looking statements that involve risks and uncertainties. CIENA has set forth in its Form 10-K Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations-Risk Factors," as filed with the Securities and Exchange Commission on December 7, 2000, a detailed statement of risks and uncertainties relating to the Company's business. In addition, set forth below under the heading "Risk Factors" is a further discussion of certain of those risks as they relate to the period covered by this report, the Company's near-term outlook with respect thereto, and the forward-looking statements set forth herein. Investors should review

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Overview

CIENA is a leader in the rapidly growing intelligent optical networking equipment market. We offer a comprehensive portfolio of products for communications service providers worldwide. Our customers include long-distance carriers, competitive and incumbent local exchange carriers, internet service providers, and wireless and wholesale carriers. CIENA offers optical transport and intelligent optical switching systems that enable service providers to provision, manage and deliver high-bandwidth services to their customers. CIENA's intelligent optical networking products are designed to enable carriers to deliver any time, any size, any priority bandwidth to their customers.

On March 29, 2001, CIENA acquired all of the outstanding capital stock, and assumed the options and warrants of Cyrus Systems, Inc. ("Cyrus"), a privately held provider of next-generation optical networking systems based in Fremont, California. The purchase price was approximately \$2.2 billion and consisted of the issuance of approximately 26.1 million shares of CIENA common stock, the assumption of approximately 1.9 million stock options and the indirect assumption of \$150 million principal amount of Cyrus's convertible subordinated indebtedness. Cyrus is designing and developing next-generation optical networking solutions for telecommunications carriers. The Cyrus K2 product, which has become CIENA's MetroDirector K2, is currently available for shipment in limited quantities. The MetroDirector K2 will enable carriers of metropolitan area networks to consolidate multiple legacy network elements into a switching platform. Also as a result of the Cyrus acquisition we expect our operating expenses relating to research and development, sales and marketing, and general and administrative activities to increase in future periods.

On February 9, 2001, we completed a public offering of 11,000,000 shares of common stock at a price of \$83.50 per share less underwriters' discounts and commissions. Concurrent with the offering of common stock, CIENA completed a public offering of 3.75% convertible notes with an aggregate principal amount of \$690 million. Net proceeds from these public offerings were approximately \$1.6 billion, after deducting underwriting discounts, commissions and offering expenses. Pending our use of the net proceeds, we have invested them in interest bearing, investment grade securities.

CIENA has increased the number of optical networking equipment customers from a total of twenty-seven customers during the first six months ended April 30, 2000 to thirty-nine customers for current six months ended April 30, 2001. The Company intends to preserve and enhance its market leadership and eventually build on its installed base with new and additional products. CIENA believes that its product and service quality, manufacturing experience, and proven track record of delivery will enable it to endure competitive pricing pressure while concentrating on efforts to reduce product costs and maximize production efficiencies. See "Risk Factors".

As of April 30, 2001 CIENA employed 3,860 people, which was a net increase of 1,085 persons over the 2,775 employed on October 31, 2000.

Results of Operations

Three Months Ended April 30, 2000 Compared to Three Months Ended April 30, 2001

Revenue. CIENA recognized \$185.7 million and \$425.4 million in revenue for the second quarters ended April 30, 2000 and 2001, respectively. The approximate \$239.7 million or 129.1% increase in revenues in the second quarter 2001 compared to the second quarter 2000 was the result of an increase in revenues recognized from thirty-three optical networking customers in the quarter ended April 30, 2001, as compared to twenty-two such customers in the same quarter of the prior year. Additionally, during the quarter ended April 30, 2001, two customers each accounted for 10% or more of CIENA's quarterly revenue and combined accounted for 51.6% of CIENA's quarterly revenue. This compares to the quarter ended April 30, 2000, where two customers each accounted for 10% or more of our quarterly revenue and combined accounted for 63.0% of our quarterly revenue. Revenues derived from foreign sales accounted for approximately 28.1% and 13.4% of our revenues during the second quarters ended April 30, 2000 and 2001, respectively. The decrease in the percentage of foreign sales to total sales is largely reflective of the large growth in domestic revenues while international revenues have remained relatively constant.

Revenues during CIENA's second quarter fiscal 2001 were largely attributed to sales of long distance optical transport products such as MultiWave CoreStream™, MultiWave Sentry 4000™, MultiWave Sentry 1600™ systems, and sales of our intelligent optical core switching product MultiWave CoreDirector™. Second quarter fiscal 2001 also had revenue contributions from sales of short distance optical transport products such as our MultiWave Metro™ as well as sales from our network management software LightWorks ON-Center™. This compares to CIENA's second quarter fiscal 2000 revenues, which were largely attributed to sales of MultiWave CoreStream, MultiWave Sentry 4000 and MultiWave Sentry 1600 systems. Sales of the MultiWave CoreStream systems during the second quarter fiscal 2001 included configurations for both 2.5 gigabits per second ("Gb/s") and 10.0 Gb/s transmission rates. The first release of the MultiWave CoreDirector became generally available during the third quarter of fiscal 2000.

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We expect revenues in the near term to be largely dependent upon sales to several existing customers and to be largely derived from continued sales of the MultiWave CoreStream, MultiWave Sentry 4000 and MultiWave CoreDirector systems. There are material risks associated with our dependence on these customers, as well as the successful ramping up of manufacturing of these products. See "Risk Factors".

Gross Profit. Cost of goods sold consists of component costs, direct compensation costs, warranty and other contractual obligations, royalties, license fees, inventory obsolescence costs and overhead related to CIENA's manufacturing and engineering, furnishing and installation operations. Gross profits were \$81.5 million and \$193.9 million for the second quarters ended April 30, 2000 and 2001, respectively. The approximate \$112.4 million or 138.0% increase in gross profit in the second quarter 2001 compared to the second quarter 2000 was the result of increased revenues and improved gross margins in the second quarter 2001 compared to second quarter 2000. Gross margin as a percentage of revenue was 43.9% and 45.6% for the second quarters 2000 and 2001, respectively. The increase in gross margins for the second quarter 2001 compared to the second quarter 2000 was largely attributable to reductions in product costs and an increase in production efficiencies, favorable product mix, partially offset by aggressive price competition resulting in lower selling prices for optical transport systems.

Our gross margins may be affected by a number of factors, including continued competitive market pricing, product mix, manufacturing volumes and efficiencies, and fluctuations in component costs. During the remainder of fiscal 2001, we expect to face continued pressure on gross margins, primarily as a result of substantial price discounting by competitors seeking to acquire market share. See "Risk Factors."

Research and Development Expenses. Research and development expenses (exclusive of stock compensation costs of \$0 and \$1.7 million) were \$29.1 million and \$54.3 million for the second quarters ended April 30, 2000 and 2001, respectively. During the second quarters 2000 and 2001, research and development expenses were 15.6% and 12.8% of revenue, respectively. The approximate \$25.3 million or 87.0% increase in research and development expenses in the second quarter 2001 compared to the second quarter 2000 was the result of increases in staffing levels, consumption of prototype parts, depreciation expense, and facility costs. We expect that our research and development expenditures will continue to increase during the remainder of fiscal year 2001 to support the continued development of optical transport products, intelligent optical core switching products, the exploration of new or complementary technologies, and the pursuit of various cost reduction strategies. We expense research and development costs as incurred.

Selling and Marketing Expenses. Selling and marketing expenses (exclusive of stock compensation costs of \$0 and \$0.5 million) were \$20.3 million and \$38.8 million for the second quarters ended April 30, 2000 and 2001, respectively. During the second quarters 2000 and 2001, selling and marketing expenses were 10.9% and 9.1% of revenue, respectively. The approximate \$18.5 million or 90.8% increase in selling and marketing expenses in the second quarter 2001 compared to the second quarter 2000 was primarily the result of increased staffing levels in the areas of sales, technical assistance and field support, increases in costs associated with tradeshow participation, utilization of outside consultants and depreciation expense also contributed to the comparable quarter to quarter selling and marketing expense increase. We anticipate that our selling and marketing expenses will increase during the remainder of fiscal year 2001 as additional personnel are hired and offices are opened, particularly in support of international market development, to allow us to pursue new market opportunities.

General and Administrative Expenses. General and administrative expenses (exclusive of stock compensation costs of \$0 and \$0.6 million) were \$7.2 million and \$16.8 million for the second quarters ended April 30, 2000 and 2001, respectively. During the second quarters 2000 and 2001, general and administrative expenses were 3.9% and 3.9% of revenue, respectively. The approximate \$9.6 million or 133.9% increase in general and administrative expenses from the second quarter 2000 compared to the second quarter 2001 was primarily the result of increased staffing levels, utilization of outside consultants and facility costs. We believe that our general and administrative expenses for the remainder of fiscal 2001 will increase due to the expansion of our administrative staff required to support our expanding operations.

Deferred Stock Compensation Costs. Deferred stock compensation costs were \$2.7 million for the second quarter ended April 30, 2001. As part of our acquisition of Cyras we recorded \$98.5 million of deferred stock compensation relating to the unvested stock options and restricted stock assumed in the acquisition. Deferred stock compensation is presented as a reduction of stockholder's equity and is amortized over the remaining vesting period of the applicable options.

Amortization of Goodwill. Amortization of goodwill was \$0.8 million and \$25.4 million for the second quarters ended April 30, 2000 and 2001, respectively. On March 29, 2001, we acquired Cyras which we accounted for under the purchase method of accounting. Accordingly, we recorded goodwill of \$2.1 billion representing the excess of the purchase price paid over the fair value of the net tangible and other intangible assets acquired. The goodwill from the Cyras purchase will be amortized straight-line over a seven-year period.

Amortization of Intangible Assets. Amortization of intangible assets was \$0.1 million and \$1.0 million for the second quarters ended April 30, 2000 and 2001, respectively. As part of our acquisition of Cyras we recorded \$59.3 million worth of other intangible assets. The intangible assets from the Cyras purchase will be amortized over a three to seven year period.

In-Process Research and Development. In connection with the Cyras acquisition, the Company recorded a \$45.9 million charge in the period ended April 30, 2001 for in-process research and development. This generally represents the estimated value of purchased in-process technology related to Cyras's K2 product development that had not yet reached technological feasibility and had no alternative future use at the time of the acquisition. The amount of purchase price allocated to in-process research and development was determined using the discounted cash flow method. This method consisted of estimating future net cash flows attributable in-process K2 technology for a discrete projection period and discounting the net cash flows back to their present value.

Interest and Other Income, Net. Interest income and other income (expense), net were \$3.4 million and \$20.7 million for the second quarters ended April 30, 2000 and 2001, respectively. The approximate \$17.4 million increase in interest income and other income, net was attributable to higher cash and investment balances, resulting from our equity and debt offerings during February 2001. Other expense in the second quarter of fiscal 2001 also includes amortization of debt issuance costs attributable to the convertible notes.

Interest Expense. Interest expense was \$0.1 million and \$7.1 million for the second quarters ended April 30, 2000 and 2001, respectively. Interest expense in the second quarter of fiscal 2000 was primarily related to capital lease obligations. Interest expense in the second quarter of fiscal 2001 consists of accrued interest associated with the convertible notes issued in February and the accretion of the redemption premium that is associated with the convertible subordinated notes assumed as part of the Cyras acquisition.

Provision for Income Taxes. CIENA's provision for income taxes were \$8.9 million and \$73.2 million for the second quarters ended April 30, 2000 and 2001, respectively. During the second quarters 2000 and 2001, the provision for income taxes were 32.5% and 324.8% of income before income taxes, respectively. The increase in the tax rate in the second quarter ended April 30, 2001 was the result of a change in the expected FY 2001 income tax rate from what was used in the first quarter ended January 31, 2001. The cumulative affect of this change in rate was recorded in the second quarter ended April 30, 2001. Under the tax code, expenses recorded for the amortization of certain intangible assets (such as goodwill, deferred stock compensation and in-process research and development) are not deductible for tax purposes. As a result of the Cyras acquisition, we have recorded a significant amount of intangible asset amortization. Since these expenses are not deductible for tax purposes, these expenses result in an increase in the CIENA's effective tax rate. Exclusive of these charges, CIENA's effective income tax rate would have been 33.5% for the quarter ended April 30, 2001.

Six Months Ended April 30, 2000 Compared to Six Months Ended April 30, 2001

Revenue. CIENA recognized \$337.9 million and \$777.4 million in revenue for the six months ended April 30, 2000 and 2001, respectively. The approximate \$439.5 million or 130.1% increase in revenues in the six months ended April 30, 2001 compared to the six months ended April 30, 2000 was the result of an increase in revenues recognized from thirty-nine optical networking customers in the six months ended April 30, 2001, as compared to twenty-seven such customers in the same period of the prior year. Additionally, during the six months ended April 30, 2001, two optical transport equipment customers each accounted for 10% or more of CIENA's revenue and combined accounted for 51.4% of CIENA's revenue. This compares to the six months ended April 30, 2000 where three customers each accounted for 10% or more of CIENA's revenue and combined accounted for approximately 54.0% of CIENA's revenue. Revenues derived from foreign sales accounted for approximately 34.4% and 16.1% of CIENA's revenues during the six months ended April 30, 2000 and 2001, respectively. The decrease in the percentage of foreign sales to total sales is largely reflective of the large growth in domestic revenues while international revenues have remained relatively constant.

Revenues during CIENA's six months ended April 30, 2001 were largely attributed to sales of long distance optical transport products such as MultiWave CoreStream, MultiWave Sentry 4000, MultiWave Sentry 1600 systems, and sales of our intelligent optical core switching product MultiWave CoreDirector. Revenues during the six months ended April 30, 2001 also had revenue contributions from sales of short distance optical transport products such as our MultiWave Metro as well as sales from our network management software, LightWorks ON-Center. This compares to CIENA's six months ended April 30, 2000, which were largely attributed to sales of MultiWave CoreStream, MultiWave Sentry 4000 and MultiWave Sentry 1600 systems. Sales of the MultiWave CoreStream systems during the six months ended April 30, 2001 included

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configurations for both 2.5 gigabits per second ("Gb/s") and 10.0 Gb/s transmission rates. The first release of the MultiWave CoreDirector became generally available during the third quarter of fiscal 2000.

Gross Profit. Gross profits were \$146.7 million and \$354.0 million for the six months ended April 30, 2000 and 2001, respectively. The approximate \$207.4 million or 141.4% increase in gross profit in the first six months of 2001 compared to the first six months of 2000 was the result of increased revenues and improved gross margins during the first six months of 2001. Gross margin as a percentage of revenues was 43.4% and 45.5% for the first six months of 2000 and 2001, respectively. The increase in

gross margins during the first six months of 2001 compared to the first six months of 2000 was largely attributable to reductions in product costs and an increase in production efficiencies, favorable product mix, partially offset by aggressive price competition resulting in lower selling prices for optical transport systems.

CIENA's gross margins may be affected by a number of factors, including continued competitive market pricing, product mix, manufacturing volumes and efficiencies, and fluctuations in component costs. During the remainder of fiscal 2001, CIENA expects to face continued pressure on gross margins, primarily as a result of substantial price discounting by competitors seeking to acquire market share. See "Risk Factors".

Research and Development Expenses. Research and development expenses (exclusive of stock compensation costs of \$0 and \$1.7 million) were \$57.9 million and \$96.8 million for the six months ended April 30, 2000 and 2001, respectively. During the first six months of 2000 and 2001, research and development expenses were 17.1% and 12.5% of revenue, respectively. The approximate \$38.9 million or 67.3% increase in research and development expenses in the first six months of 2001 compared to the first six months of 2000 was the result of increases in staffing levels, consumption of prototype materials, depreciation expense, and utilization of outside consultants for certain development. CIENA expenses research and development costs as incurred.

Selling and Marketing Expenses. Selling and marketing expenses (exclusive of stock compensation costs of \$0 and \$0.5 million) were \$38.5 million and \$68.4 million for the six months ended April 30, 2000 and 2001, respectively. During the first six months of 2000 and 2001, selling and marketing expenses were 11.4% and 8.8% of revenue, respectively. The approximate \$30.0 million or 77.9% increase in selling and marketing expenses in the first six months of 2001 compared to the first six months of 2000 was primarily the result of increased staffing levels in the areas of sales, technical assistance and field support, utilization of outside consultants, trade show participation, promotional costs, and depreciation expense.

General and Administrative Expenses. General and administrative expenses (exclusive of stock compensation costs of \$0 and \$0.6 million) were \$14.0 million and \$27.9 million for the six months ended April 30, 2000 and 2001, respectively. During the first six months of 2000 and 2001, general and administrative expenses were 4.2% and 3.6% of revenue, respectively. The approximate \$13.9 million or 98.8% increase in general and administrative expenses in the first six months of 2001 compared to the first six months of 2000 was primarily due to increases in staffing levels and outside consulting services.

Deferred Stock Compensation Costs. Deferred stock compensation costs were \$2.7 million for the six months ended April 30, 2001. As part of our acquisition of Cyras we recorded \$98.5 million of deferred stock compensation relating to the unvested stock options and restricted stock assumed in the acquisition. Deferred stock compensation is presented as a reduction of stockholder's equity and is amortized over the remaining vesting period of the applicable options.

Amortization of Goodwill. Amortization of goodwill was \$1.6 million and \$26.3 million for the six months ended April 30, 2000 and 2001, respectively. On March 29, 2001, we acquired Cyras which was accounted for under the purchase method of accounting. Accordingly, we recorded goodwill of approximately \$2.1 billion representing the excess of the purchase price paid over the fair value of the net tangible and other intangible assets acquired. The goodwill from the Cyras purchase will be amortized over a seven-year period.

Amortization of Intangible Assets. Amortization of intangible assets was \$0.2 million and \$1.1 million for the six months ended April 30, 2000 and 2001, respectively. As part of our acquisition of Cyras we recorded \$59.3 million worth of other intangible assets. The other intangible assets from the Cyras purchase will be amortized over a three to seven year period.

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In-Process Research and Development. In connection with the Cyras acquisition, the Company recorded a \$45.9 million charge for the six months ended April 30, 2001 for in-process research and development. This generally represents the estimated value of purchased in-process technology related to Cyras's K2 product development that had not yet reached technological feasibility and had no alternative future use at the time of the acquisition. The amount of purchase price allocated to in-process research and development was determined using the discounted cash flow method. This method consisted of estimating future net cash flows attributable to the in-process K2 technology for a discrete projection period and discounting the net cash flows back to their present value.

Interest and Other Income, Net. Interest income and other income, net were \$6.4 million and \$25.0 million for the six months ended April 30, 2000 and 2001, respectively. The approximate \$18.6 million increase in interest income and other income, net was attributable to higher cash and investment balances, resulting from our equity and debt offerings during February 2001. Other expense in the six months ended April 30, 2001 also includes amortization of debt issuance costs attributable to the convertible notes.

Interest Expense. Interest expense was \$0.2 million and \$7.2 million for the six months ended April 30, 2000 and 2001, respectively. Interest expense during the six months ended April 20, 2000 was primarily related to capital lease obligations. Interest expense during the six months ended April 30, 2001 consists of accrued interest attributable to the convertible notes, and the accretion of the redemption premium that is associated with the convertible subordinated notes assumed as part of the Cyras acquisition.

Provision for Income Taxes. CIENA's provision for income taxes were \$13.2 million and \$100.0 million for the six months ended April 30, 2000 and 2001, respectively. During the first six months of 2000 and 2001, the provision for income taxes were 32.5% and 97.5% of income before income taxes, respectively. The increase in the income tax rate in the first six months of 2001 compared to 2000 resulted from recording non-deductible goodwill, deferred stock compensation and in-process research and development connected with the Cyras acquisition. Under the tax code, expenses recorded for the amortization of certain intangible assets (such as goodwill, deferred stock compensation and in-process research and development) are not deductible for tax purposes. As a result of the Cyras acquisition, we have recorded a significant amount of intangible asset amortization. Since these expenses are not deductible for tax purposes, these expenses result in an increase in the CIENA's effective tax rate. Exclusive of these charges, the Company's effective income tax rate would have been 33.5% for the six months ended April 30, 2001.

Liquidity and Capital Resources

At April 30, 2001, CIENA's principal source of liquidity was its cash and cash equivalents of \$1.1 billion, short-term investments of \$357.2 million and long-term investments of \$336.0 million.

Cash provided by operations was \$3.2 million and \$117.8 for the six months ended April 30, 2000 and 2001 respectively. The increase of cash generated from operations was approximately \$114.7 million from the first six months of 2000 compared to the first six months of 2001. The increases were principally attributable to the tax benefit related to exercise of stock options, increases in accounts payable, non-cash charges of in-process research and development, decrease in deferred tax asset, amortization, depreciation and provisions for inventory obsolescence and warranty. This was offset by the increases in inventory, prepaid expenses and prepaid assets.

Cash used in investing activities was \$75.7 million and \$687.0 million for the six months ended April 30, 2000 and 2001 respectively. Investment activities included the net purchase of \$28.2 million and \$598.1 million worth of short and long-term investments during the six months ended April 30, 2000 and 2001, respectively. Investment activities also included \$47.5 million and \$135.0 million invested in capital expenditures during the six months ended April 30, 2000 and 2001, respectively. Of the amount invested in capital expenditures, \$40.7 million and \$130.5 million was used for additions to capital equipment and furniture and the remaining \$6.8 million and \$4.5 million was invested in leasehold improvements during the six months ended April 30, 2000 and 2001, respectively. CIENA expects to use an additional \$170 million of capital during the remainder of fiscal 2001 to complete the construction of leasehold improvements for its facilities and additional investments in capital equipment.

Cash generated from financing activities for the six months ended April 30, 2000 and 2001 was \$19.1 million and \$1.6 billion, respectively. Included in the financing activities for the six months ended April 30, 2000 was cash generated from the exercise of employee stock options and the issuance of common stock of \$19.1 million. On February 9, 2001, we completed a public offering of 11,000,000 shares of common stock at a price of \$83.50 per share less underwriters' discounts and commissions. Concurrent with the offering of common stock, CIENA completed a public offering of 3.75% convertible notes with an aggregate principal amount of \$690 million. Net proceeds from these public offerings were approximately \$1.6 billion, after deducting underwriting discounts, commissions and offering. Pending our use of the net proceeds, we have invested them in interest bearing, investment grade securities.

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We believe that our existing cash balances and investments, together with cash from our recently completed public offerings and cash flow from operations, will be sufficient to meet our liquidity and capital spending requirements for the next 18 to 24 months. However, possible investments in or acquisitions of complementary businesses, products or technologies may require additional financing prior to such time. There can be no assurance that additional debt or equity financing will be available when required or, if available, can be secured on terms satisfactory to us.

Risk Factors

Our Results Can Be Unpredictable

Our ability to recognize revenue during a quarter from a customer depends upon our ability to ship product and satisfy other contractual obligations of a customer sale in that quarter. In general, revenue and operating results in any reporting period may fluctuate due to factors including:

- loss of a customer;
- a change in the pricing for our products;
- the timing and size of orders from customers;
- changes in customers' requirements, including changes or cancellations to orders from customers;
- the introduction of new products by us or our competitors;

- changes in the price or availability of components for our products;
- readiness of customer sites for installation;
- satisfaction of contractual customer acceptance criteria and related revenue recognition issues;
- manufacturing and shipment delays and deferrals;
- increased service, installation, warranty or repair costs;
- the timing and amount of employer payroll tax to be paid on employee gains on stock options exercised; and
- changes in general economic conditions as well as those specific to the telecommunications and intelligent optical networking industries.

Our intelligent optical networking products require a relatively large investment, and our current and potential customers are highly demanding and technically sophisticated. There are only a limited number of potential customers in each geographic market, and each customer has unique needs. As a result, the sales cycles for our products are long, often more than a year between our initial contact with the customer and our ability to recognize revenue from sales of products to a customer.

We budget expense levels on our expectations of long-term future revenue. These budgets reflect our substantial investment in the financial, engineering, manufacturing and logistics support resources we think we may need for large potential customers, even though we do not know the volume, duration or timing of any purchases from them. In addition, we make a substantial investment in financial, manufacturing and engineering resources for the development of new and enhanced products. As a result, we may continue to experience high inventory levels, operating expenses and general overhead.

We have experienced rapid expansion in all areas of our operations, particularly in the manufacturing of our products. Our future operating results will depend on our ability to continue to expand our manufacturing facilities in a timely manner so that we can satisfy our delivery commitments to our customers. Our failure to expand these facilities in a timely manner and meet our customer delivery commitments would harm our business, financial condition and results of operations.

Our product development efforts will require us to incur ongoing development and operating expenses, and any delay in the contributions from new products, such as the MultiWave CoreDirector product line and the MetroDirector K2 product line, and enhancements to our existing optical transport products could harm our business.

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Changes In Technology Or The Delays In The Deployment Of New Products Could Hurt Our Near-Term Prospects

The market for optical networking equipment is changing at a rapid pace. The accelerated pace of deregulation and the adoption of new technology in the telecommunications industry likely will intensify the competition for improved optical networking products. Our ability to develop, introduce and manufacture new and enhanced products will depend upon our ability to anticipate changes in technology, industry standards and customer requirements. Our failure to introduce new and enhanced products in a timely manner and to integrate these products with our existing product line in a timely manner could harm our competitive position and financial condition. Several of our new products, including the MultiWave CoreDirector, the MetroDirector K2 product and enhancements to the MultiWave CoreStream, are based on complex technology which could result in unanticipated delays in the development, manufacturing or deployment of these products. In addition, our ability to recognize revenue from these products could be adversely affected by the extensive testing required for these products by our customers. The complexity of technology associated with support equipment for these products could also result in unanticipated delays in their deployment. These delays could harm our competitive and financial condition.

Competitive products, the introduction of new products embodying new technologies, a change in the requirements of our customers, or the emergence of new industry standards could delay or hinder the purchase and deployment of our products and could render our existing products obsolete, unmarketable or uncompetitive from a pricing standpoint and would harm our business, financial condition and results of operations. The long certification process for new telecommunications equipment used in the networks of the regional Bell operating companies, referred to as RBOCs, has in the past resulted in and may continue to result in unanticipated delays which may affect the timing and ability for us to deploy our products for the RBOC market.

We Face Intense Competition Which Could Hurt Our Sales And Profitability

The market for optical networking equipment is extremely competitive. Competition in the optical networking installation and test services market is based on varying combinations of price, functionality, software functionality, manufacturing capability, installation, services, scalability and the ability of the system solution to meet customers' immediate and future network requirements. A small number of very large companies, including Alcatel, Cisco Systems, Fujitsu Group, Hitachi, Lucent

Technologies, NEC Corporation, Nortel Networks, Siemens AG and Telefon AB LM Ericsson, have historically dominated the telecommunications equipment industry. These companies have substantial financial, marketing, manufacturing and intellectual property resources. In addition, these companies have substantially greater resources to develop or acquire new technologies than we do and often have existing relationships with our potential customers. We sell systems that compete directly with product offerings of these companies and in some cases displace or replace equipment they have traditionally supplied for telecommunications networks. As such, we represent a specific threat to these companies. The continued expansion of our product offerings with the MultiWave CoreDirector and MetroDirector K2 product lines and enhancements to our MultiWave CoreStream product line likely will increase this perceived threat. We expect continued aggressive tactics from many of these competitors, including:

- price discounting;
- early announcements of competing products and other marketing efforts;
- “one-stop shopping” options;
- customer financing assistance;
- marketing and advertising assistance; and
- intellectual property disputes.

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

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

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

We May Not Be Able To Successfully Complete Development And Achieve Commercial Acceptance of New Products

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

- completion of product development;
- the qualification and multiple sourcing of critical components, including application-specific integrated circuits, referred to as ASICs;
- validation of manufacturing methods and processes;
- extensive quality assurance and reliability testing, and staffing of testing infrastructure;

- validation of embedded software;
- establishment of systems integration and systems test validation requirements; and
- identification and qualification of component suppliers.

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

The markets for our MultiWave CoreDirector and MetroDirector K2 product lines are relatively new. We have not established commercial acceptance of these products, and we cannot assure you that the substantial sales and marketing efforts necessary to achieve commercial acceptance in traditionally long sales cycles will be successful. If the markets for these products do not develop or the products are not accepted by the market, our business, financial condition and results of operations would suffer.

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

We depend on a limited number of suppliers for components of our products, as well as for equipment used to

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

Failures of components can affect customer confidence in our products and could adversely affect our financial performance and the reliability and performance of our products. On occasion, we have experienced delays in receipt of components and have received components that do not perform according to their specifications. Any future difficulty in obtaining sufficient and timely delivery of components could result in delays or reductions in product shipments which, in turn, could harm our business. A recent wave of consolidation among suppliers of these components, such as the recent purchases of E-TEK and SDL by JDS Uniphase, could adversely impact the availability of components on which we depend. Delayed deliveries of key components from these sources could adversely affect our business.

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

We Rely On Contract Manufacturers For Our Products

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

Changes in our Customers' Purchasing Plans May Increase The Unpredictability Of Our Results

Unanticipated changes in customer purchasing plans create unpredictability in our results. Although sales to the emerging carriers and to the larger service provider market have grown historically, this market is characterized by large and often sporadic purchases. Sales activity to emerging carriers, and to service providers generally, depend upon the stage of completion of expanding network infrastructures, the availability of funding, and the extent that service providers are affected by regulatory and business conditions in the country of operations. As we continue to address emerging carriers, timing and volume of purchasing from these carriers can also be more unpredictable due to factors such as their need to build a customer base, acquire rights of way and interconnections necessary to sell network service, and build out new capacity, all while working within their capital budget

constraints. Sales to these carriers may increase the unpredictability of our financial results because even these emerging carriers purchase our products in multi-million dollar increments. A portion of our anticipated revenue over the next several quarters is comprised of orders of less than \$25 million each from several customers, some of which may involve extended payment terms or other financing assistance. A decline or delay in sales orders could have a material adverse effect on our business, operating results, and financial condition.

We are Exposed to the Credit Risk of Our Customers

We continue to monitor increased credit exposures from weakened financial conditions and the impact that these conditions may have on our current and potential customers. Changes in the financial condition of our customers could have a material adverse effect on us. In the past we have had to make provisions for the accounts receivable from customers that experienced financial difficulty. If additional customers face similar financial difficulties, our receivables from those customers may become uncollectible, and we would have to write off the asset or decrease the value of the asset to the extent the receivable could not be collected. These write-downs or write-offs could harm our business and have a material adverse effect on our operating results and financial condition.

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We continue to experience demand for customer financing. A portion of our future revenue may include loan financing, and leasing solutions. Our ability to recognize revenue from financed sales will depend on the relative financial condition of the specific customer, among other factors. Further, we will need to evaluate the collectibility of receivables from these customers if their financial conditions deteriorate in the future. Any change in the financial condition of customers that we provide financing to could harm our business and have a material adverse effect on our operating results and financial condition.

We May Not Be Able To Achieve The Benefits We Sought From The Acquisition with Cyras

We have limited experience with acquisitions and cannot be certain that we will achieve the benefits we envision from the recently completed acquisition with Cyras. The expected benefits of the Cyras acquisition depend on our ability to successfully complete the development of future releases of the MetroDirector K2 product and integrate it into our product portfolio, achieve market acceptance and revenue expectations for the MetroDirector K2 product, and achieve the expected synergies of the merger, including the successful integration and retention of personnel. Also, in the future we will incur non-cash charges in connection with the merger related to goodwill and other intangible amortization and amortization of deferred stock compensation.

The integration of Cyras involves a number of risks, including:

- difficulty assimilating Cyras's operations and personnel;
- diversion of management attention;
- potential disruption of ongoing business;
- inability to retain key personnel;
- inability to maintain uniform standards, controls, procedures and policies; and
- impairment of relationships with employees, customers or vendors.

Failure to overcome these risks or any other problems encountered in connection with the integration of the Cyras personnel could have a material adverse effect on our business, results of operations and financial condition.

Our Prospects Depend On Demand Which We Cannot Reliably Predict Or Control

We may not anticipate changes in direction or magnitude of demand for our products. The product offerings of our competitors could adversely affect the demand for our products. In addition, unanticipated reductions in demand for our products could adversely affect us.

Demand for our products depends on our customers' requirements. These requirements may vary significantly from quarter to quarter due to factors such as:

- the type and quantity of optical equipment needed by our customers;
- the timing of the deployment of optical equipment by our customers;
- the rate at which our current customers fund their network build-outs; and
- the equipment configurations and network architectures our customers want.

Customer determinations are subject to abrupt changes in response to their own competitive pressures, capital requirements and financial performance expectations. These changes could harm our business.

Some Of Our Suppliers Are Also Our Competitors

Some of our component suppliers are both primary sources for components and major competitors in the market for system equipment. For example, we buy components from:

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- Alcatel;
- Lucent Technologies;
- NEC Corporation;
- Nortel Networks; and
- Siemens AG.

Each of these companies offers optical communications systems and equipment that are competitive with our products. Alcatel and Nortel are suppliers of lasers used in our products, and NEC is a supplier of an important piece of testing equipment. A decline in reliability or other adverse change in these supply relationships could harm our business.

Our Ability To Compete Could Be Harmed If We Are Unable To Protect And Enforce Our Intellectual Property Rights Or If We Infringe On Intellectual Property Rights Of Others

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

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

Product Performance Problems Could Limit Our Sales Prospects

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

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

- declining interest from potential customers.

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

We Face Risks Associated with our International Operations

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

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

Our Success Largely Depends On Our Ability To Retain Key Personnel

Our success has always depended in large part on our ability to attract and retain highly-skilled technical, managerial, sales and marketing personnel, particularly those skilled and experienced with optical communications equipment. Our key founders and employees, together with the key founders and employees of our acquired companies, have received a substantial number of our shares and vested options that can be sold at substantial gains. In many cases, these individuals could become financially independent through these sales before our future products have matured into commercially deliverable products. These circumstances may make it difficult to retain and motivate these key personnel.

As we have grown and matured, competitors' efforts to hire our employees have intensified, particularly among competitive start-up companies and other early stage companies. We have agreements in place with most of our employees that limit their ability to work for a competitor and prohibit them from soliciting our other employees and our customers following termination of their employment. Our employees and our competitors may not respect these agreements. We have in the past been required to enforce, and are currently in the process of enforcing, some of these agreements. We expect in the future to continue to be required to resort to legal actions to enforce these agreements and could incur substantial costs in doing so. We may not be successful in these legal actions, and we may not be able to retain all of our key employees or attract new personnel to add to or replace them. The loss of key personnel would likely harm our business.

Part Of Our Strategy Involves Pursuing Strategic Acquisitions and Investments That May Not Be Successful

As part of our strategy for growth, we will consider acquiring or making strategic investments in businesses that are intended to accelerate our product and service development processes and add complementary products and services. We may issue equity that would dilute our current shareholder's percentage ownership or incur debt or assume indebtedness in connection with these acquisitions. In addition, we may incur significant amortization expenses related to goodwill and other intangible assets or incur large and immediate write-offs. Acquisitions and strategic investments involve numerous risks, including difficulties in integrating the operations, technologies, and products of the acquired companies; diversion of management's attention from our core business; potential difficulties in completing projects of the acquired company; the potential loss of key employees of the acquired company; and dependence on unfamiliar or relatively small supply partners. In addition acquisitions and strategic investments involve significant risks of entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions and of obtaining insufficient revenues to offset increased expenses associated with acquisitions. Mergers and acquisitions of optical networking companies are inherently risky, and no assurance can be given that our previous or future acquisitions will be successful and will not materially adversely affect our business, operating results, or financial condition.

We must also manage any growth effectively. Failure to manage growth effectively and successfully integrate acquisitions we made could harm our business and operating results in a material way.

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

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

Our significant leverage could have important negative consequences, including:

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

Cyrus Systems LLC, our wholly owned subsidiary, has \$150 million of 4 1/2% convertible subordinated notes outstanding. In the event that the holders of the Cyrus notes convert their notes into our common stock, we would have to issue a significant number of shares of additional common stock. Based on the exchange ratio for the Cyrus acquisition of approximately 0.13, we will have to issue approximately 1,037,055 shares of our common stock if holders of the entire \$150 million of convertible notes decided to convert their notes. In the event that the holders of the Cyrus notes do not elect to convert them into our common stock before March 31, 2002, and if a “complying public equity offering” has not occurred on or before that date, we will have to make an offer to repurchase the notes at 118.942% of the principal balance of the notes on April 30, 2002. A “complying public equity offering” is a firm commitment underwritten public offering of the common stock of Cyrus, in which Cyrus raises at least \$50 million in gross proceeds.

The notes offered by us and the Cyrus notes are not our only obligations. The indentures for our notes does not limit our ability, or that of our subsidiaries, to incur other indebtedness and liabilities. We may have difficulty paying what we owe under the notes if we or our subsidiaries incur additional indebtedness or other liabilities.

Our Stock Price May Exhibit Volatility

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

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

Forward Looking Statements

Some of the statements contained, or incorporated by reference, in this quarterly report discuss future expectations, contain projections of results of operations or financial condition or state other “forward-looking” information. Those statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The “forward-looking” information is based on various factors and was derived using numerous assumptions. In some cases, you can identify these so-called “forward-looking statements” by words like “may,” “will,”

“should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of those words and other comparable words. You should be aware that those statements only reflect our predictions. Actual events or results may differ substantially. Important factors that could cause our actual results to be materially different from the forward-looking statements are disclosed throughout this report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The following discussion about the Company’s market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. The Company is exposed to market risk related to changes in interest rates and foreign currency exchange rates. The Company does not use derivative financial instruments for speculative or trading purposes.

Interest Rate Sensitivity. The Company maintains a short-term and long-term investment portfolio. These available-for-sale securities are subject to interest rate risk and will fall in value if market interest rates increase. If market interest rates were to increase immediately and uniformly by 10 percent from levels at April 30, 2001, the fair value of the portfolio would decline by approximately \$74.8 million.

Foreign Currency Exchange Risk. As a global concern, the Company faces exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve and could have a material adverse impact on the Company’s financial results. Historically the Company’s primary exposures have been related to non-dollar denominated operating expenses in Europe and Asia where the Company sells primarily in U.S. dollars. The Company is prepared to hedge against fluctuations in foreign currency if this exposure becomes material. As of April 30, 2001, the assets and liabilities of the Company related to non-dollar denominated currencies was not material. Therefore we do not expect an increase or decrease of 10 percent in the foreign exchange rate would have a material impact on the Company’s financial position.

PART II. – OTHER INFORMATION

Item 1. Legal Proceedings

On October 3, 2000, Stanford University and Litton Systems filed a complaint in U.S. District Court for the Central District of California alleging that optical fiber amplifiers incorporated into CIENA’s products infringe U.S. Patent No. 4,859,016. Due to the early stage of this litigation, CIENA is unable to determine whether the litigation will have an adverse effect on the Company. The Company intends to defend this suit vigorously.

On July 19, 2000, CIENA and CIENA Properties, Inc., a wholly owned subsidiary of CIENA, filed a complaint in the United States District Court for the District of Delaware requesting damages and injunctive relief against Corvis Corporation. The complaint charges Corvis Corporation with infringing three patents relating to CIENA’s optical networking communication systems and technology. On September 8, 2000, Corvis filed an Answer and Counterclaim alleging invalidity, non-infringement and unenforceability of the asserted patents, and tortious interference with prospective economic advantage. On February 7, 2001, CIENA and CIENA Properties, Inc. filed an amendment to the complaint to add two additional patents relating to CIENA’s optical networking communications systems and technology. On March 19, 2001, Corvis filed an Answer and Counter claim to the amended complaint alleging invalidity non-infringement and unenforceability of the newly asserted patents. The Company is in the discovery phase of the litigation and a trial date has been set for April 1, 2002. CIENA believes that Corvis’ counterclaims are without merit, and intends to defend itself vigorously.

Item 4. Submission of Matters to a Vote of Security Holders

The annual meeting of stockholders of the Registrant was held on March 12, 2001. At the annual meeting, the stockholders voted on the following matters:

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	Votes For	Votes Against	Votes Abstained	Non-Votes
Election of three Class 1 Directors				
Lawton W. Fitt	244,149,387	-	-	621,400
Patrick H. Nettles, PH.D	244,191,803	-	-	578,984
John R. Dillon	244,175,997	-	-	594,790

The following directors continue to hold office after that meeting:
 Stephen P. Bradley, Judith M. O’Brien, Gary B. Smith and
 Gerald H. Taylor

To approve the CIENA Corporation Third Amended and Restated 1994 Stock Option Plan to increase the number of shares of Common Stock authorized for issuance thereunder from 40.1 million shares to 46.1 million shares and to make certain other changes, including eliminating the ability of the Board of Directors to reprice options granted after January 17, 2001.	148,433,106	46,062,012	371,818	49,903,851
To amend the Ciena Corporation Third Amended and Restated 1994 Stock Option Plan to add a provision that will increase the number of shares reserved under the Plan by .75% of the issued and outstanding Common Stock of the Corporation on the last day of each fiscal year beginning with 2001 ending with 2004.	151,929,262	42,518,216	419,458	49,903,851
To amend the Corporation's Third Restated Certificate of Incorporation to increase the number of shares of Common Stock authorized for issuance thereunder from 460 million shares to 980 million shares.	211,111,604	33,394,640	264,543	-

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Item 6. Exhibits and Reports on Form 8-K

(a)	Exhibit	Description
	3.7	Certificate of Amendment to Third Restated Certificate of Incorporation dated March 13, 2001
	4.7	Indenture dated August 18, 2000 between Cyras Systems, Inc. and State Street Bank and Trust Company for 4.50% convertible subordinated notes due August 15, 2005
	4.8	First Supplemental Indenture dated November 27, 2000 to the Indenture dated August 18, 2000 between Cyras Systems, Inc. and State Street Bank and Trust Company for 4.50% convertible subordinated notes due August 15, 2005
	4.9	Second Supplemental Indenture dated November 28, 2000 to the Indenture dated August 18, 2000 between Cyras Systems, Inc. and State Street Bank and Trust Company for 4.50% convertible subordinated notes due August 15, 2005
	4.10	Third Supplemental Indenture dated March 29, 2001 between Cyras Systems, Inc., CIENA Corporation and State Street Bank and Trust Company to the Indenture dated August 18, 2000 between Cyras Systems, Inc. and State Street Bank and Trust Company for 4.50% convertible subordinated notes due August 15, 2005
	10.24	Cyras Systems, Inc. 1998 Stock Plan as amended and form of Stock Option Agreement
(b)		Reports on Form 8-K: Form 8-K filed April 2, 2001.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CIENA CORPORATION

Date: May 17, 2001

By: /s/ Gary B. Smith
 Gary B. Smith
 President, Chief Executive Officer
 and Director
 (Duly Authorized Officer)

Date: May 17, 2001

By: /s/ Joseph R. Chinnici
 Joseph R. Chinnici

Senior Vice President, Finance and
Chief Financial Officer
(Principal Financial Officer)

CERTIFICATE OF AMENDMENT
OF
THIRD RESTATED CERTIFICATE OF INCORPORATION
OF
CIENA CORPORATION

It is hereby certified that:

1.The name of the corporation is CIENA Corporation (hereinafter called the "Corporation"). The Corporation was originally incorporated under the name "Hydralite Incorporated", and the date of filing of the original Certificate of Incorporation of the Corporation with the Secretary of State of the State of Delaware is November 2, 1992. A Restated Certificate of Incorporation was filed thereafter on April 8, 1994 (the "First Restated Certificate"); a Second Restated Certificate was filed thereafter on December 20, 1994 (the "Second Restated Certificate of Incorporation"); a Third Restated Certificate of Incorporation was filed thereafter on December 20, 1995 (the "Third Restated Certificate of Incorporation"); a Certificate of Amendment to the Third Restated Certificate of Incorporation was filed thereafter on December 9, 1996; a Certificate of Designation was filed thereafter on January 12, 1998; a Certificate of Amendment to the Third Restated Certificate of Incorporation was filed thereafter on March 13, 1998; and a Certificate of Amendment to the Third Restated Certificate of Incorporation was filed thereafter on March 16, 2000.

2.The board of directors of the Corporation, in a meeting of the Board of Directors held on December 15, 2001, adopted a resolution declaring it advisable that the Third Restated Certificate of Incorporation of the Corporation be amended by striking out the first paragraph of Article Fourth thereof and substituting in lieu thereof the following new paragraph:

"FOURTH: The Corporation shall have the authority to issue two (2) classes of shares to be designated respectively "Preferred Stock" and "Common Stock." The total number of shares of stock that the Corporation shall have the authority to issue is One Billion (1,000,000,000) shares of capital stock, par value \$0.01 per share. The total number of shares of Preferred Stock that the Corporation shall have authority to issue is Twenty Million (20,000,000), par value \$0.01 per share. The total number of shares of Common Stock which the Corporation shall have the authority to issue is Nine Hundred Eighty Million (980,000,000), par value \$0.01 per share."

3.The board of directors of the Corporation, in a meeting of the Board of Directors held on December 15, 2001, has adopted a resolution directing that the aforesaid amendment to the Third Restated Certificate of Incorporation of the Corporation be presented to the stockholders of the Corporation at their next annual meeting for their consideration.

4.Holders of the majority of the outstanding stock of the Corporation entitled to vote thereon at the Annual Meeting of Stockholders held on March 12, 2001 at 3:00 p.m. have approved and adopted the aforesaid amendment to the Third Restated Certificate of Incorporation.

5.The aforesaid amendment to the certificate of Third Restated Certificate of Incorporation was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, CIENA Corporation has caused this certificate to be signed by Patrick H. Nettles, its Chairman and Chief Executive Officer, this 13th day of March, 2001.

CIENA Corporation

By: /s/ Patrick H. Nettles

Patrick H. Nettles
Chairman and Chief Executive Officer

EXHIBIT 4.7

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CYRAS SYSTEMS, INC.
4 1/2% CONVERTIBLE SUBORDINATED NOTES DUE AUGUST 15, 2005

INDENTURE
DATED AS OF AUGUST 18, 2000

STATE STREET BANK AND TRUST COMPANY OF CALIFORNIA, N.A.,
AS TRUSTEE

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THIS INDENTURE dated as of August 18, 2000 is between Cyras Systems, Inc., a California corporation (the "Company"), and State Street Bank and Trust Company of California, N.A., a national banking association organized and existing under the laws of the United States, as Trustee (the "Trustee").

In consideration of the premises and the purchase of the Securities by the Holders thereof, both parties agree as follows for the benefit of the other and for the equal and ratable benefit of the registered Holders of the Company's 4 1/2% Convertible Subordinated Notes due August 15, 2005.

ARTICLE 1
DEFINITIONS AND INCORPORATION BY REFERENCE

SECTION 1.1.DEFINITIONS.

"Additional Interest" has the meaning specified in Section 2(e) of the Registration Rights Agreement. All references herein to interest accrued or payable as of any date shall include any Additional Interest accrued or payable as of such date as provided in the Registration Rights Agreement.

"Affiliate" means, with respect to any specified person, any other person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified person. For the purposes of this definition, "control" when used with respect to any person means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Agent" means any Registrar, Paying Agent or Conversion Agent.

"Applicable Procedures" means, with respect to any transfer or exchange of beneficial ownership interests in a Global Security, the rules and procedures of the Depository that are applicable to such transfer or exchange.

"Board of Directors" means the board of directors of the Company or any authorized committee of the Board of Directors.

"Business Day" means each day that is not a Legal Holiday.

"Capital Stock" of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, but excluding any debt securities convertible into such equity.

"Cash" or "cash" means such coin or currency of the United States as at any time of payment is legal tender for the payment of public and private debts.

"Certificated Security" means a Security that is in substantially the form attached hereto as Exhibit A and that does not include the information or the schedule called for by footnotes 1, 3 and 4 thereof.

"Common Stock" means the common stock of the Company, no par value, as it exists on the date of this Indenture and any shares of any class or classes of capital stock of the Company resulting from any

reclassification or reclassifications thereof and which have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Company and which are not subject to redemption by the Company; provided, however, that if at any time there shall be more than one such resulting class, the shares of each such class then so issuable on conversion of Securities shall be substantially in the proportion which the total number of shares of such class resulting from all such reclassifications bears to the total number of shares of all such classes resulting from all such reclassifications.

"Company" means the party named as such in this Indenture until a successor replaces it pursuant to this Indenture, and thereafter means the successor.

"Complying Public Equity Offering" means the closing of a firm commitment underwritten public offering of the Company's Common Stock in which the Company shall have raised at least \$50,000,000 in gross proceeds from a registered offering under the Securities Act, and following which the Common Stock is traded on a U.S. national securities exchange or quoted on the Nasdaq National Market.

"Corporate Trust Office" means the principal office of the Trustee at which at any particular time its corporate trust business shall be administered which office at the date of the execution of this Indenture is located at 633 West 5th Street, Los Angeles, California 90071, Attention: Corporate Trust Administration (Cyrus Systems, Inc. - 4 1/2% Convertible Subordinated Notes due August 15, 2005) or at any other time at such other address as the Trustee may designate from time to time by notice to the Company.

"Default" or "default" means, when used with respect to the Securities, any event which is or, after notice or passage of time or both, would be an Event of Default.

"Designated Senior Indebtedness" means any particular Senior Indebtedness in which the instrument creating or evidencing the same or the assumption or guarantee thereof (or related agreements or documents to which the Company is a party) expressly provides that such Indebtedness shall be "Designated Senior Indebtedness" for purposes of this Indenture (provided that such instrument, agreement or other document may place limitations and conditions on the right of such Senior Indebtedness to exercise the rights of Designated Senior Indebtedness). If any payment made to any holder of any Designated Senior Indebtedness or its Representative with respect to such Designated Senior Indebtedness is rescinded or must otherwise be returned by such holder or Representative upon the insolvency, bankruptcy or reorganization of the Company or otherwise, the reinstated Indebtedness of the Company arising as a result of such rescission or return shall constitute Designated Senior Indebtedness effective as of the date of such rescission or return.

"Exchange Act" means the Securities and Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder, as in effect from time to time.

"Final Maturity Date" means August 15, 2005.

"GAAP" means generally accepted accounting principles in the United States of America as in effect as of the date of this Indenture, including those set forth in (1) the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants, (2) the statements and pronouncements of the Financial Accounting Standards Board, (3) such other statements by such other entity as approved by a significant segment of the accounting profession and (4) the rules and regulations of the SEC governing the inclusion of financial statements (including pro forma financial statements) in registration statements filed under the Securities Act and periodic reports required to be filed pursuant to Section 13 of the

Exchange Act, including opinions and pronouncements in staff accounting bulletins and similar written statements from the accounting staff of the SEC.

"Global Security" means a permanent Global Security that is in substantially the form attached hereto as Exhibit A and that includes the information and schedule called for by footnotes 1, 3 and 4 thereof and which is deposited with the Depositary or its custodian and registered in the name of the Depositary or its nominee.

"Holder" or "Securityholder" means the person in whose name a Security is registered on the Primary Registrar's books.

"Indebtedness" means, with respect to any Person, without duplication, (a) all indebtedness, obligations and other liabilities (contingent or otherwise) of such Person for borrowed money (including obligations of such Person in respect of overdrafts, foreign exchange contracts, currency exchange agreements, interest rate protection agreements, and any loans or advances from banks, whether or not evidenced by notes or similar instruments) or evidenced by credit or loan agreements, bonds, debentures, notes or similar instruments (whether or not the recourse of the lender is to the whole of the assets of such Person or to only a portion thereof) (other than any account payable or other accrued current liability or obligation incurred in the ordinary course of business in connection with the obtaining of materials or services), (b) all reimbursement obligations and other liabilities (contingent or otherwise) of such Person with respect to letters of credit, bank guarantees or bankers' acceptances, (c) all obligations and liabilities (contingent or otherwise) of such Person (i) in respect of leases of such Person required, in conformity with generally accepted accounting principles, to be accounted for as capitalized lease obligations on the balance sheet of such Person, (ii) as lessee under other leases for facilities equipment (and related assets leased together therewith), whether or not capitalized, entered into or leased for financing purposes (as determined by such Person and reflected in writing at the time of execution of the lease or the time of any amendment thereto) or (iii) under any lease or related document (including a purchase agreement) in connection with the lease of real property which provides that such Person is contractually obligated to purchase or cause a third party to purchase the leased property and thereby guarantee a minimum residual value of the leased property to the lessor and the obligations of such Person under such lease or related document to purchase or to cause a third party to purchase such leased property, (d) all obligations (contingent or otherwise) of such Person with respect to any interest rate, currency or other swap, cap, floor or collar agreement, hedge agreement, forward contract, or other similar instrument or foreign currency hedge, exchange, purchase or similar instrument or agreement, (e) all obligations of the type referred to in clauses (a) through (d) above of another Person and all dividends of another Person, the payment of which, in either case, such Person has assumed or guaranteed, or for which the Company is responsible or liable, directly or indirectly, jointly or severally, as obligor, guarantor or otherwise is secured by a lien on the property of such Person, and (f) any and all deferrals, renewals, extensions and refundings of, or amendments, modifications or supplements to, any indebtedness, obligation or liability of the kind described in clauses (a) through (e) above.

"Indenture" means this Indenture as amended or supplemented from time to time pursuant to the terms of this Indenture.

"Initial Public Offering Price" means the "price to public" of the Company's Common Stock as set forth on the cover page of the final prospectus for a Complying Public Equity Offering.

"Issue Date" means August 18, 2000.

"Officer" means the Chairman or any Co-Chairman of the Board, any Vice Chairman of the Board, the Chief Executive Officer, the President, any Vice President, the Chief Financial Officer, the Controller, the Secretary or any Assistant Secretary of the Company.

"Officers' Certificate" means a certificate signed by two Officers; provided, however, that for purposes of Sections 4.11 and 6.3, "Officers' Certificate" means a certificate signed by the principal executive officer, principal financial officer or principal accounting officer of the Company and by one other Officer.

"Opinion of Counsel" means a written opinion from legal counsel. The counsel may be an employee of or counsel to the Company or the Trustee.

"Person" or "person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"Principal" or "principal" of a debt security, including the Securities, means the principal of the security plus, when appropriate, the premium, if any, on the security.

"Redemption Date," when used with respect to any Security to be redeemed, means the date fixed for such redemption pursuant to this Indenture.

"Redemption Price," when used with respect to any Security to be redeemed, means the Optional Redemption Price, in the event of an Optional Redemption, or the Provisional Redemption Price, in the event of a Provisional Redemption, as the case may be.

"Registration Rights Agreement" means the Registration Rights Agreement, dated as of August 18, 2000, among the Company and Credit Suisse First Boston Corporation, as initial purchaser.

"Representative" means the (a) indenture trustee or other trustee, agent or representative for any Senior Indebtedness or (b) with respect to any Senior Indebtedness that does not have any such trustee, agent or other representative, (i) in the case of such Senior Indebtedness issued pursuant to an agreement providing for voting arrangements as among the holders or owners of such Senior Indebtedness, any holder or owner of such Senior Indebtedness acting with the consent of the required persons necessary to bind such holders or owners of such Senior Indebtedness and (ii) in the case of all other such Senior Indebtedness, the holder or owner of such Senior Indebtedness.

"Restricted Certificated Security" means a Certificated Security which is a Transfer Restricted Security.

"Restricted Global Security" means a Global Security that is a Transfer Restricted Security.

"Restricted Security" means a Restricted Certificated Security or a Restricted Global Security.

"Rule 144" means Rule 144 under the Securities Act or any successor to such Rule.

"Rule 144A" means Rule 144A under the Securities Act or any successor to such Rule.

"SEC" means the Securities and Exchange Commission.

"Securities" means the 4 1/2% Convertible Subordinated Notes due August 15, 2005 or any of them (each, a "Security"), as amended or supplemented from time to time, that are issued under this Indenture.

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder, as in effect from time to time.

"Securities Custodian" means the Trustee, as custodian with respect to the Securities in global form, or any successor thereto.

"Senior Indebtedness" means the principal of, premium, if any, interest (including all interest accruing subsequent to the commencement of any bankruptcy or similar proceeding, whether or not a claim for post-petition interest is allowable as a claim in any such proceeding) and rent payable on or in connection with, and all fees, costs, expenses and other amounts accrued or due on or in connection with, Indebtedness of the Company, whether outstanding on the date of this Indenture or thereafter created, incurred, assumed, guaranteed or in effect guaranteed by the Company (including all deferrals, renewals, extensions or refundings of, or amendments, modifications or supplements to, the foregoing), unless in the case of any particular Indebtedness the instrument creating or evidencing the same or the assumption or guarantee thereof expressly provides that such Indebtedness shall not be senior in right of payment to the Securities or expressly provides that such Indebtedness is "pari passu" or "junior" to the Securities. Notwithstanding the foregoing, the term Senior Indebtedness shall not include any Indebtedness of the Company to any Subsidiary of the Company. If any payment made to any holder of any Senior Indebtedness or its Representative with respect to such Senior Indebtedness is rescinded or must otherwise be returned by such holder or Representative upon the insolvency, bankruptcy or reorganization of the Company or otherwise, the reinstated Indebtedness of the Company arising as a result of such rescission or return shall constitute Senior Indebtedness effective as of the date of such rescission or return.

"Subsidiary" means, in respect of any Person, any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers, general partners or trustees thereof is at the time owned or controlled, directly or indirectly, by (i) such Person; (ii) such Person and one or more Subsidiaries of such Person; or (iii) one or more Subsidiaries of such Person.

"TIA" means the Trust Indenture Act of 1939, as amended, as in effect on the date of this Indenture, except as provided in Section 11.3, and except to the extent any amendment to the Trust Indenture Act expressly provides for application of the Trust Indenture Act as in effect on another date.

"Trading Day" means, with respect to any security, each Monday, Tuesday, Wednesday, Thursday and Friday, other than any day on which securities are not generally traded on the principal exchange or market in which such security is traded.

"Trustee" means the party named as such in this Indenture until a successor replaces it in accordance with the provisions of this Indenture, and thereafter means the successor.

"Trust Officer" means, with respect to the Trustee, any officer assigned to the Corporate Trust Office, and also, with respect to a particular matter, any other officer to whom such matter is referred because of such officer's knowledge of and familiarity with the particular subject.

"Unrestricted Certificated Security" means a Certificated Security that is not a Transfer Restricted Security.

"Unrestricted Global Security" means a Global Security that is not a Transfer Restricted Security.

"Voting Stock" of a Person means all classes of Capital Stock or other interests (including partnership interests) of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

SECTION 1.2.OTHER DEFINITIONS.

TERM	DEFINED IN SECTION
"Acceleration Amount".....	5.1
"Agent Members".....	2.1
"Bankruptcy Law".....	8.1
"Bonus Conversion Period".....	4.1(b)
"Bonus Payment".....	4.1(b)
"Change in Control".....	3.8
"Change in Control Purchase Date".....	3.8
"Change in Control Purchase Notice".....	3.8
"Change in Control Purchase Price".....	3.8
"Closing Price".....	4.6(d)
"Company Order".....	2.2
"Conversion Agent".....	2.3
"Conversion Date".....	4.2
"Conversion Make-Whole Payment".....	4.2(b)
"Conversion Price".....	4.6
"Current Market Price".....	4.6(d)
"Custodian".....	8.1
"DTC".....	2.1
"Depository".....	2.1
"Determination Date".....	4.6(c)
"Event of Default".....	8.1
"Expiration Date".....	4.6(c)
"Expiration Time".....	4.6(c)
"Legal Holiday".....	12.7
"NNM".....	4.6(d)
"Notice Date".....	3.1
"Optional Redemption".....	3.1
"Optional Redemption Price".....	3.1
"Paying Agent".....	2.3
"Payment Blockage Notice".....	5.2
"Primary Registrar".....	2.3
"Provisional Redemption".....	3.1
"Provisional Redemption Date".....	3.1
"Provisional Redemption Price".....	3.1

TERM	DEFINED IN SECTION
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"Purchase Agreement".....	2.1
"Purchased Shares".....	4.6(c)
"QIB".....	2.1
"Registrar".....	2.3
"Repurchase Date".....	13.1
"Repurchase Offer".....	13.1
"Repurchase Price".....	13.1
"Repurchase Trigger Date".....	13.1
"Transfer Certificate".....	2.12
"Transfer Restricted Security".....	2.12
"Triggering Distribution".....	4.6(c)

SECTION 1.3. TRUST INDENTURE ACT PROVISIONS.

Whenever this Indenture refers to a provision of the TIA, that provision is incorporated by reference in and made a part of this Indenture. The Indenture shall also include those provisions of the TIA required to be included herein by the provisions of the Trust Indenture Reform Act of 1990. The following TIA terms used in this Indenture have the following meanings:

"indenture securities" means the Securities;

"indenture security holder" means a Securityholder;

"indenture to be qualified" means this Indenture; and

"indenture trustee" or "institutional trustee" means the Trustee; and "obligor" on the indenture securities means the Company or any other obligor on the Securities.

All other terms used in this Indenture that are defined in the TIA, defined by TIA reference to another statute or defined by any SEC rule and not otherwise defined herein have the meanings assigned to them therein.

SECTION 1.4. RULES OF CONSTRUCTION.

Unless the context otherwise requires:

(A) a term has the meaning assigned to it;

(B) an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP;

(C) words in the singular include the plural, and words in the plural include the singular;

(D) provisions apply to successive events and transactions;

(E) the term "merger" includes a statutory share exchange and the term "merged" has a correlating meaning;

(F) the masculine gender includes the feminine and the neuter;

(G) references to agreements and other instruments include subsequent amendments thereto; and

(H) "herein," "hereof" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

ARTICLE 2
THE SECURITIES

SECTION 2.1. FORM AND DATING.

The Securities and the Trustee's certificate of authentication shall be substantially in the respective forms set forth in Exhibit A, which Exhibit is incorporated in and made part of this Indenture. The Securities may have notations, legends or endorsements required by law, stock exchange rule or usage. Each Security shall be dated the date of its authentication. The Securities are being offered and sold by the Company pursuant to a Purchase Agreement, dated August 15, 2000 (the "Purchase Agreement"), between the Company and Credit Suisse First Boston Corporation in transactions exempt from, or not subject to, the registration requirements of the Securities Act.

(a) Restricted Global Securities. All of the Securities are initially being offered and sold to qualified institutional buyers as defined in Rule 144A (collectively, "QIBs" or individually, each a "QIB") in reliance on Rule 144A under the Securities Act and shall be issued initially in the form of one or more Restricted Global Securities, which shall be deposited on behalf of the purchasers of the Securities represented thereby with the Trustee, at its Corporate Trust Office, as custodian for the depository, The Depository Trust Company ("DTC") (such depository, or any successor thereto, being hereinafter referred to as the "Depository"), and registered in the name of its nominee, Cede & Co., duly executed by the Company and authenticated by the Trustee as hereinafter provided. The aggregate principal amount of the Restricted Global Security may from time to time be increased or decreased by adjustments made on the records of the Securities Custodian as hereinafter provided, subject in each case to compliance with the Applicable Procedures.

(b) Global Securities In General. Each Global Security shall represent such of the outstanding Securities as shall be specified therein and each shall provide that it shall represent the aggregate amount of outstanding Securities from time to time endorsed thereon and that the aggregate amount of outstanding Securities represented thereby may from time to time be reduced or increased, as appropriate, to reflect exchanges, redemptions, purchases or conversions of such Securities. Any endorsement of a Global Security to reflect the amount of any increase or decrease in the amount of outstanding Securities represented thereby shall be made by the Securities Custodian in accordance with the standing instructions and procedures existing between the Depository and the Securities Custodian.

Members of, or participants in, the Depository ("Agent Members") shall have no rights under this Indenture with respect to any Global Security held on their behalf by the Depository or under the Global Security, and the Depository (including, for this purpose, its nominee) may be treated by the Company, the Trustee and any agent of the Company or the Trustee as the absolute owner and Holder of such Global Security for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall (A) prevent the

Company, the Trustee or any agent of the Company or the Trustee from giving effect to any written certification, proxy or other authorization furnished by the Depository or (B) impair, as between the Depository and its Agent Members, the operation of customary practices governing the exercise of the rights of a Holder of any Security.

(c) Certificated Securities. Certificated Securities shall be issued only under the limited circumstances provided in Section 2.12(a)(1) hereof.

SECTION 2.2. EXECUTION AND AUTHENTICATION.

An Officer shall sign the Securities for the Company by manual or facsimile signature attested by the manual or facsimile signature of the Secretary or an Assistant Secretary of the Company. Typographic and other minor errors or defects in any such facsimile signature shall not affect the validity or enforceability of any Security which has been authenticated and delivered by the Trustee.

If an Officer whose signature is on a Security no longer holds that office at the time the Trustee authenticates the Security, the Security shall be valid nevertheless.

A Security shall not be valid until an authorized signatory of the Trustee manually signs the certificate of authentication on the Security. The signature shall be conclusive evidence that the Security has been authenticated under this Indenture.

The Trustee shall authenticate and make available for delivery Securities for original issue in the aggregate principal amount of up to \$150,000,000 upon receipt of a written order or orders of the Company signed by two Officers of the Company (a "Company Order"). The Company Order shall specify the amount of Securities to be authenticated, shall provide that all such Securities will be represented by a Restricted Global Security and the date on which each original issue of Securities is to be authenticated. The aggregate principal amount of Securities outstanding at any time may not exceed \$150,000,000, except as provided in Section 2.7.

The Trustee shall act as the initial authenticating agent. Thereafter, the Trustee may appoint an authenticating agent acceptable to the Company to authenticate Securities. An authenticating agent may authenticate Securities whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent shall have the same rights as an Agent to deal with the Company or an Affiliate of the Company.

The Securities shall be issuable only in registered form without coupons and only in denominations of \$1,000 and any integral multiple thereof.

SECTION 2.3. REGISTRAR, PAYING AGENT AND CONVERSION AGENT.

The Company shall maintain one or more offices or agencies where Securities may be presented for registration of transfer or for exchange (each, a "Registrar"), one or more offices or agencies where Securities may be presented for payment (each, a "Paying Agent"), one or more offices or agencies where Securities may be presented for conversion (each, a "Conversion Agent") and one or more offices or agencies where notices and demands to or upon the Company in respect of the Securities and this Indenture may be served. The Company will at all times maintain a Paying Agent, Conversion Agent, Registrar and an office or agency where notices and demands to or upon the Company in respect of the Securities and this Indenture may be

served in the Borough of Manhattan, the City of New York. One of the Registrars (the "Primary Registrar") shall keep a register of the Securities and of their transfer and exchange.

The Company shall enter into an appropriate agency agreement with any Agent not a party to this Indenture. The agreement shall implement the provisions of this Indenture that relate to such Agent. The Company shall notify the Trustee of the name and address of any Agent not a party to this Indenture. If the Company fails to maintain a Registrar, Paying Agent, Conversion Agent or agent for service of notices and demands in any place required by this Indenture, or fails to give the foregoing notice, the Trustee shall act as such. The Company or any Affiliate of the Company may act as Paying Agent (except for the purposes of Section 6.1 and Article 10).

The Company hereby initially appoints the Trustee as Paying Agent, Registrar, Custodian and Conversion Agent, and each of the Corporate Trust Office of the Trustee and the office of the Trustee in the Borough of Manhattan, the City of New York (which shall initially be State Street Bank and Trust Company, N.A., an Affiliate of the Trustee, as agent of the Trustee located at 61 Broadway, 15th Floor, New York, New York, 10006, Attention: Corporate Trust Administration (Cyras Systems, Inc. 4 1/2% Convertible Subordinated Notes due August 15, 2005)), one such office or agency of the Company for each of the aforesaid purposes.

SECTION 2.4. PAYING AGENT TO HOLD MONEY IN TRUST.

Prior to 11:00 a.m., New York City time, on each due date of the principal of or interest, if any, on any Securities, the Company shall deposit with a Paying Agent a sum sufficient to pay such principal or interest, if any, so becoming due. A Paying Agent shall hold in trust for the benefit of Securityholders or the Trustee all money held by the Paying Agent for the payment of principal of or interest, if any, on the Securities, and shall notify the Trustee of any default by the Company (or any other obligor on the Securities) in making any such payment. If the Company or an Affiliate of the Company acts as Paying Agent, it shall, before 11:00 a.m., New York City time, on each due date of the principal of or interest on any Securities, segregate the money and hold it as a separate trust fund. The Company at any time may require a Paying Agent to pay all money held by it to the Trustee, and the Trustee may at any time during the continuance of any default, upon written request to a Paying Agent, require such Paying Agent to forthwith pay to the Trustee all sums so held in trust by such Paying Agent. Upon doing so, the Paying Agent (other than the Company) shall have no further liability for the money.

SECTION 2.5. SECURITYHOLDER LISTS.

The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Securityholders. If the Trustee is not the Primary Registrar, the Company shall furnish to the Trustee on or before each semiannual interest payment date and at such other times as the Trustee may request in writing a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of Securityholders.

SECTION 2.6. TRANSFER AND EXCHANGE.

(a) Subject to compliance with any applicable additional requirements contained in Section 2.12, when a Security is presented to a Registrar with a request to register a transfer thereof or to exchange such Security for an equal principal amount of Securities of other authorized denominations, the Registrar shall register the transfer or make the exchange as requested; provided, however, that every Security presented or surrendered for registration of transfer or exchange shall be duly endorsed or accompanied by an assignment

form and, if applicable, a transfer certificate each in the form included in Exhibit A, and in form satisfactory to the Registrar duly executed by the Holder thereof or its attorney duly authorized in writing. To permit registration of transfers and exchanges, upon surrender of any Security for registration of transfer or exchange at an office or agency maintained pursuant to Section 2.3, the Company shall execute and the Trustee shall authenticate Securities of a like aggregate principal amount at the Registrar's request. No service charge shall be made to a Holder for any registration of transfer or exchange of Securities, but the Company or the Register may require payment of a sum sufficient from the Holder to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities, other than exchanges pursuant to Section 2.7, 2.10, 2.11, 3.6, 4.2 (last paragraph) or 11.5 not involving any transfer.

Neither the Company, any Registrar nor the Trustee shall be required to exchange or register a transfer of (a) any Securities for a period of 15 days next preceding any mailing of a notice of Securities to be redeemed, (b) any Securities or portions thereof selected or called for redemption (except, in the case of redemption of a Security in part, the portion not to be redeemed) or (c) any Securities or portions thereof in respect of which a Change in Control Purchase Notice has been delivered and not withdrawn by the Holder thereof (except, in the case of the purchase of a Security in part, the portion not to be purchased).

All Securities issued upon any transfer or exchange of Securities shall be valid obligations of the Company, evidencing the same debt and entitled to the same benefits under this Indenture, as the Securities surrendered upon such transfer or exchange.

(b) Any Registrar appointed pursuant to Section 2.3 hereof shall provide to the Trustee such information as the Trustee may reasonably require in connection with the delivery by such Registrar of Securities upon transfer or exchange of Securities.

(c) Each Holder of a Security agrees to indemnify the Company and the Trustee against any liability that may result from the transfer, exchange or assignment of such Holder's Security in violation of any provision of this Indenture and/or applicable United States federal or state securities law.

The Trustee shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Indenture or under applicable law with respect to any transfer of any interest in any Security (including any transfers between or among Agent Members or other beneficial owners of interests in any Global Security) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by the terms of, this Indenture, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

SECTION 2.7. REPLACEMENT SECURITIES.

If any mutilated Security is surrendered to the Company, a Registrar or the Trustee, or the Company, a Registrar and the Trustee receive evidence to their satisfaction of the destruction, loss or theft of any Security, and there is delivered to the Company, the applicable Registrar and the Trustee such Security or indemnity as will be required by them to save each of them harmless, then, in the absence of notice to the Company, such Registrar or the Trustee that such Security has been acquired by a bona fide purchaser, the Company shall execute, and upon its written request the Trustee shall authenticate and deliver, in exchange for any such mutilated Security or in lieu of any such destroyed, lost or stolen Security, a new Security of like tenor and principal amount, bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, or is about to be redeemed or purchased by the Company pursuant to Article 3, the Company in its discretion may, instead of issuing a new Security, pay, redeem or purchase such Security, as the case may be.

Upon the issuance of any new Security under this Section 2.7, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other reasonable expenses (including the reasonable fees and expenses of the Trustee or the Registrar) in connection therewith.

Every new Security issued pursuant to this Section 2.7 in lieu of any destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security shall be at any time enforceable by anyone, and shall be entitled to all benefits of this Indenture equally and proportionately with any and all other Securities duly issued hereunder.

The provisions of this Section 2.7 are (to the extent lawful) exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

SECTION 2.8. OUTSTANDING SECURITIES.

Securities outstanding at any time are all Securities authenticated by the Trustee, except for those canceled by it, those delivered to it for cancellation and those described in this Section 2.8 as not outstanding.

If a Security is replaced pursuant to Section 2.7, it ceases to be outstanding unless the Company receives proof satisfactory to it that the replaced Security is held by a bona fide purchaser.

If a Paying Agent (other than the Company or an Affiliate of the Company) holds on a Redemption Date, a Change in Control Purchase Date or the Final Maturity Date money sufficient to pay the principal of (including premium, if any) and accrued interest on Securities (or portions thereof) payable on that date, then on and after that date such Securities (or portions thereof, as the case may be) cease to be outstanding and interest on them ceases to accrue.

Subject to the restrictions contained in Section 2.9, a Security does not cease to be outstanding because the Company or an Affiliate of the Company holds the Security.

SECTION 2.9. TREASURY SECURITIES.

In determining whether the Holders of the required principal amount of Securities have concurred in any notice, direction, waiver or consent, Securities owned by the Company or any other obligor on the Securities or by any Affiliate of the Company or of such other obligor shall be disregarded, except that, for purposes of determining whether the Trustee shall be protected in relying on any such notice, direction, waiver or consent, only Securities which a Trust Officer of the Trustee actually knows are so owned shall be so disregarded. Securities so owned which have been pledged in good faith shall not be disregarded if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to the Securities and that the pledgee is not the Company or any other obligor on the Securities or any Affiliate of the Company or of such other obligor.

SECTION 2.10. TEMPORARY SECURITIES.

Until definitive Securities are ready for delivery, the Company may prepare and execute, and, upon receipt of a Company Order, the Trustee shall authenticate and deliver, temporary Securities. Temporary Securities shall be substantially in the form of definitive Securities but may have variations that the Company with the consent of the Trustee considers appropriate for temporary Securities. Without unreasonable delay, the Company shall prepare and the Trustee shall authenticate and deliver definitive Securities in exchange for temporary Securities.

SECTION 2.11. CANCELLATION.

The Company at any time may deliver Securities to the Trustee for cancellation. The Registrar, the Paying Agent and the Conversion Agent shall forward to the Trustee or its agent any Securities surrendered to them for transfer, exchange, payment or conversion. The Trustee and no one else shall cancel, in accordance with its standard procedures, all Securities surrendered for transfer, exchange, redemption, payment, conversion or cancellation and shall deliver the canceled Securities to the Company. All Securities which are redeemed, purchased or otherwise acquired by the Company or any of its Subsidiaries prior to the Final Maturity Date shall be delivered to the Trustee for cancellation and the Company may not hold or resell such Securities or issue any new Securities to replace any such Securities or any Securities that any Holder has converted pursuant to Article 4. Without limitation to the foregoing, any Securities acquired by any investment bankers or other purchasers pursuant to Section 3.7 shall be surrendered for conversion and thereafter cancelled, and may not be reoffered, sold or otherwise transferred.

SECTION 2.12. ADDITIONAL TRANSFER AND EXCHANGE REQUIREMENTS.

(a) Transfer And Exchange Of Global Securities.

(1) Certificated Securities shall be issued in exchange for interests in the Global Securities only if (x) the Depositary notifies the Company that it is unwilling or unable to continue as depositary for the Global Securities or if it at any time ceases to be a "clearing agency" registered under the Exchange Act, if so required by applicable law or regulation and a successor depositary is not appointed by the Company within 90 days, or (y) an Event of Default has occurred and is continuing. In either case, the Company shall execute, and the Trustee shall, upon receipt of a Company Order (which the Company agrees to delivery promptly), authenticate and deliver Certificated Securities in an aggregate principal amount equal to the principal amount of such Global Securities in exchange therefor. Only Restricted Certificated Securities shall be issued in exchange for beneficial interests in Restricted Global Securities, and only Unrestricted Certificated Securities shall be issued in exchange for beneficial interests in Unrestricted Global Securities. Certificated Securities issued in exchange for beneficial interests in Global Securities shall be registered in such names and shall be in such authorized denominations as the Depositary, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Trustee. The Trustee shall deliver or cause to be delivered such Certificated Securities to the persons in whose names such Securities are so registered. Such exchange shall be effected in accordance with the Applicable Procedures.

(2) Notwithstanding any other provisions of this Indenture other than the provisions set forth in Section 2.12(a)(1), a Global Security may not be transferred as a whole except by the Depositary to a nominee of the Depositary or by a nominee of the Depositary to the Depositary or another nominee of the Depositary or by the Depositary or any such nominee to a successor Depositary or a nominee of such successor Depositary.

(b) Transfer And Exchange Of Certificated Securities. In the event that Certificated Securities are issued in exchange for beneficial interests in Global Securities in accordance with Section 2.12(a)(i) of this Indenture, on or after such event when Certificated Securities are presented by a Holder to a Registrar with a request:

(x) to register the transfer of the Certificated Securities to a person who will take delivery thereof in the form of Certificated Securities only; or

(y) to exchange such Certificated Securities for an equal principal amount of Certificated Securities of other authorized denominations, such Registrar shall register the transfer or make the exchange as requested; provided, however, that the Certificated Securities presented or surrendered for register of transfer or exchange:

(1) shall be duly endorsed or accompanied by a written instrument of transfer in accordance with the proviso to the first paragraph of Section 2.6; and

(2) in the case of a Restricted Certificated Security, such request shall be accompanied by the following additional information and documents, as applicable:

(A) if such Restricted Certificated Security is being delivered to the Registrar by a Holder for registration in the name of such Holder, without transfer, or such Restricted Certificated Security is being transferred to the Company or a Subsidiary of the Company, a certification to that effect from such Holder (in substantially the form set forth in the Transfer Certificate);

(B) if such Restricted Certificated Security is being transferred to a person the Holder reasonably believes is a QIB in accordance with Rule 144A or pursuant to an effective registration statement under the Securities Act, a certification to that effect from such Holder (in substantially the form set forth in the Transfer Certificate); or

(C) if such Restricted Certificated Security is being transferred (i) pursuant to an exemption from the registration requirements of the Securities Act in accordance with Rule 144 or (ii) pursuant to an exemption from the registration requirements of the Securities Act (other than pursuant to Rule 144A or Rule 144) and as a result of which, in the case of a Security transferred pursuant to this clause (ii), such Security shall cease to be a "restricted security" within the meaning of Rule 144, a certification to that effect from the Holder (in substantially the form set forth in the Transfer Certificate) and, if the Company or such Registrar so requests, a customary opinion of counsel, certificates and other information reasonably acceptable to the Company and such Registrar to the effect that such transfer is in compliance with the Securities Act.

(c) Transfer of a Beneficial Interest in a Restricted Global Security for a Beneficial Interest in an Unrestricted Global Security. Any person having a beneficial interest in a Restricted Global Security may upon request, subject to the Applicable Procedures, transfer such beneficial interest to a person who is required or permitted to take delivery thereof in the form of an Unrestricted Global Security. Upon receipt by the Trustee of written instructions, or such other form of instructions as is customary for the Depository, from the Depository or its nominee on behalf of any person having a beneficial interest in a Restricted Global Security and the following additional information and documents in such form as is customary for the Depository from the Depository or its nominee on behalf of the person having such beneficial interest in the Restricted Global Security (all of which may be submitted by facsimile or electronically):

(1) if such beneficial interest is being transferred pursuant to an effective registration statement under the Securities Act, a certification to that effect from the transferor (in substantially the form set forth in the Transfer Certificate); or

(2) if such beneficial interest is being transferred (i) pursuant to an exemption from the registration requirements of the Securities Act in accordance with Rule 144 or (ii) pursuant to an exemption from the registration requirements of the Securities Act (other than pursuant to Rule 144A or Rule 144) and as a result of which, in the case of a Security transferred pursuant to this clause (ii), such Security shall cease to be a "restricted security" within the meaning of Rule 144, a certification to that effect from the transferor (in substantially the form set forth in the Transfer Certificate) and, if the Company or the Trustee so requests, a customary opinion of counsel, certificates and other information reasonably acceptable to the Company and the Trustee to the effect that such transfer is in compliance with the Securities Act, the Trustee, as a Registrar and Securities Custodian, shall reduce or cause to be reduced the aggregate principal amount of the Restricted Global Security by the appropriate principal amount and shall increase or cause to be increased the aggregate principal amount of the Unrestricted Global Security by a like principal amount. Such transfer shall otherwise be effected in accordance with the Applicable Procedures. If no Unrestricted Global Security is then outstanding, the Company shall execute and the Trustee shall, upon receipt of a Company Order (which the Company agrees to deliver promptly), authenticate and deliver an Unrestricted Global Security.

(d) Transfer of a Beneficial Interest in an Unrestricted Global Security for a Beneficial Interest in a Restricted Global Security. Any person having a beneficial interest in an Unrestricted Global Security may upon request, subject to the Applicable Procedures, transfer such beneficial interest to a person who is required or permitted to take delivery thereof in the form of a Restricted Global Security (it being understood that only QIBs may own beneficial interests in Restricted Global Securities). Upon receipt by the Trustee of written instructions or such other form of instructions as is customary for the Depository, from the Depository or its nominee, on behalf of any person having a beneficial interest in an Unrestricted Global Security and, in such form as is customary for the Depository, from the Depository or its nominee on behalf of the person having such beneficial interest in the Unrestricted Global Security (all of which may be submitted by facsimile or electronically) a certification from the transferor (in substantially the form set forth in the Transfer Certificate) to the effect that such beneficial interest is being transferred to a person that the transferor reasonably believes is a QIB in accordance with Rule 144A. The Trustee, as a Registrar and Securities Custodian, shall reduce or cause to be reduced the aggregate principal amount of the Unrestricted Global Security by the appropriate principal amount and shall increase or cause to be increased the aggregate principal amount of the Restricted Global Security by a like principal amount. Such transfer shall otherwise be effected in accordance with the Applicable Procedures. If no Restricted Global Security is then outstanding, the Company shall execute and the Trustee shall, upon receipt of a Company Order (which the Company agrees to deliver promptly), authenticate and deliver a Restricted Global Security.

(e) Transfers of Certificated Securities for Beneficial Interest in Global Securities. In the event that Certificated Securities are issued in exchange for beneficial interests in Global Securities and, thereafter, the events or conditions specified in Section 2.12(a)(1) which required such exchange shall cease to exist, the Company shall mail notice to the Trustee and to the Holders stating that Holders may exchange Certificated Securities for interests in Global Securities by complying with the procedures set forth in this Indenture and briefly describing such procedures and the events or circumstances requiring that such notice be given. Thereafter, if Certificated Securities are presented by a Holder to a Registrar with a request:

(x) to register the transfer of such Certificated Securities to a person who will take delivery thereof in the form of a beneficial interest in a Global Security, which request shall specify whether such Global Security will be a Restricted Global Security or an Unrestricted Global Security; or

(y) to exchange such Certificated Securities for an equal principal amount of beneficial interests in a Global Security, which beneficial interests will be owned by the Holder transferring such Certificated Securities (provided that in the case of such an exchange, Restricted Certificated Securities may be exchanged only for Restricted Global Securities and Unrestricted Certificated Securities may be exchanged only for Unrestricted Global Securities), the Registrar shall register the transfer or make the exchange as requested by canceling such Certificated Security and causing, or directing the Securities Custodian to cause, the aggregate principal amount of the applicable Global Security to be increased accordingly and, if no such Global Security is then outstanding, the Company shall issue and the Trustee shall authenticate and deliver a new Global Security; provided, however, that the Certificated Securities presented or surrendered for registration of transfer or exchange:

(1) shall be duly endorsed or accompanied by a written instrument of transfer in accordance with the proviso to Section 2.6;

(2) in the case of a Restricted Certificated Security to be transferred for a beneficial interest in an Unrestricted Global Security, such request shall be accompanied by the following additional information and documents, as applicable:

(A) if such Restricted Certificated Security is being transferred pursuant to an effective registration statement under the Securities Act, a certification to that effect from such Holder (in substantially the form set forth in the Transfer Certificate); or

(B) if such Restricted Certificated Security is being transferred pursuant to (i) an exemption from the registration requirements of the Securities Act in accordance with Rule 144 or (ii) pursuant to an exemption from the registration requirements of the Securities Act (other than pursuant to Rule 144A or Rule 144) and as a result of which, in the case of a Security transferred pursuant to this clause (ii), such Security shall cease to be a "restricted security" within the meaning of Rule 144, a certification to that effect from such Holder (in substantially the form set forth in the Transfer Certificate), and, if the Company or the Registrar so requests, a customary opinion of counsel, certificates and other information reasonably acceptable to the Company and the Trustee to the effect that such transfer is in compliance with the Securities Act;

(3) in the case of a Restricted Certificated Security to be transferred or exchanged for a beneficial interest in a Restricted Global Security, such request shall be accompanied by a certification from such Holder (in substantially the form set forth in the Transfer Certificate) to the effect that such Restricted Certificated Security is being transferred to a person the Holder reasonably believes is a QIB (which, in the case of an exchange, shall be such Holder) in accordance with Rule 144A;

(4) in the case of an Unrestricted Certificated Security to be transferred or exchanged for a beneficial interest in an Unrestricted Global Security, such request need not be accompanied by any additional information or documents; and

(5) in the case of an Unrestricted Certificated Security to be transferred or exchanged for a beneficial interest in a Restricted Global Security, such request shall be accompanied by a certification from

such Holder (in substantially the form set forth in the Transfer Certificate) to the effect that such Unrestricted Certificated Security is being transferred to a person the Holder reasonably believes is a QIB (which, in the case of an exchange, shall be such Holder) in accordance with Rule 144A.

(f) Legends.

(1) Except as permitted by the following paragraphs (2) and (3), each Global Security and Certificated Security (and all Securities issued in exchange therefor or upon registration of transfer or replacement thereof) shall bear a legend in substantially the form called for by footnote 2 to Exhibit A hereto (each a "Transfer Restricted Security" for so long as it is required by this Indenture to bear such legend). Each Transfer Restricted Security shall have attached thereto a certificate (a "Transfer Certificate") in substantially the form called for by footnote 4 to Exhibit A hereto.

(2) Upon any sale or transfer of a Transfer Restricted Security (w) after the expiration of the holding period applicable to sales of the Securities under Rule 144(k) of the Securities Act, (x) pursuant to Rule 144, (y) pursuant to an effective registration statement under the Securities Act or (z) pursuant to any other available exemption (other than Rule 144A) from the registration requirements of the Securities Act and as a result of which, in the case of a Security transferred pursuant to this clause (z), such Security shall cease to be a "restricted security" within the meaning of Rule 144:

(A) in the case of any Restricted Certificated Security, any Registrar shall permit the Holder thereof to exchange such Restricted Certificated Security for an Unrestricted Certificated Security, or (under the circumstances described in Section 2.12(e)) to transfer such Restricted Certificated Security to a transferee who shall take such Security in the form of a beneficial interest in an Unrestricted Global Security, and in each case shall rescind any restriction on the transfer of such Security; provided, however, that the Holder of such Restricted Certificated Security shall, in connection with such exchange or transfer, comply with the other applicable provisions of this Section 2.12; and

(B) in the case of any beneficial interest in a Restricted Global Security, the Trustee shall permit the beneficial owner thereof to transfer such beneficial interest to a transferee who shall take such interest in the form of a beneficial interest in an Unrestricted Global Security and shall rescind any restriction on transfer of such beneficial interest; provided, that such Unrestricted Global Security shall continue to be subject to the provisions of Section 2.12(a)(2); and provided, further, that the owner of such beneficial interest shall, in connection with such transfer, comply with the other applicable provisions of this Section 2.12.

(3) Upon the exchange, registration of transfer or replacement of Securities not bearing the legend described in paragraph (1) above, the Company shall execute, and the Trustee shall authenticate and deliver Securities that do not bear such legend and that do not have a Transfer Certificate attached thereto.

(4) After the expiration of the holding period pursuant to Rule 144(k) of the Securities Act, the Company may with the consent of the Holder of a Restricted Global Security or Restricted Certificated Security, remove any restriction of transfer on such Security, and the Company shall execute, and the Trustee shall authenticate and deliver Securities that do not bear such legend and that do not have a Transfer Certificate attached thereto.

(g) Transfers to the Company. Nothing in this Indenture or in the Securities shall prohibit the sale or other transfer of any Securities (including beneficial interests in Global Securities) to the Company or

any of its Subsidiaries, which Securities shall thereupon be cancelled in accordance with the penultimate sentence of Section 2.11.

SECTION 2.13. CUSIP NUMBERS.

The Company in issuing the Securities may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall use "CUSIP" numbers in notices of redemption or purchase as a convenience to Holders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of a redemption or purchase and that reliance may be placed only on the other identification numbers printed on the Securities, and any such redemption or purchase shall not be affected by any defect in or omission of such numbers. The Company will promptly notify the Trustee of any change in the "CUSIP" numbers.

ARTICLE 3. REDEMPTION AND PURCHASES

SECTION 3.1. RIGHT TO REDEEM; NOTICE TO TRUSTEE.

(a) The Securities may be redeemed at the election of the Company, as a whole or in part from time to time, at any time after the 95th day following a Complying Public Equity Offering and prior to the second anniversary of a Complying Public Equity Offering (a "Provisional Redemption"), upon notice as set forth in Section 3.3, at a Redemption Price equal to \$1,000 per \$1,000 principal amount of the Securities redeemed plus accrued and unpaid interest (including Additional Interest), if any (such amount, together with the Make-Whole Payment described below, the "Provisional Redemption Price"), to, but excluding, the date of redemption (the "Provisional Redemption Date") if (i) the Closing Price of the Common Stock has exceeded 150% of the Conversion Price then in effect for at least 20 Trading Days within a period of 30 consecutive Trading Days ending on the Trading Day prior to the date of mailing of the provisional notice of redemption pursuant to Section 3.3 (the "Notice Date"), and (ii) a registration statement covering resales of the Securities and the Common Stock issuable upon conversion thereof is effective and available for use and is expected to remain effective for the 30 days following the Provisional Redemption Date unless registration is no longer required.

Upon any such Provisional Redemption, the Company shall calculate and make an additional payment in cash or Common Stock (the "Make-Whole Payment") with respect to the Securities called for redemption to holders on the Notice Date in an amount equal to the amount of accrued interest per \$1,000 principal amount of a Security from the Issue Date to the second anniversary of a Complying Public Equity Offering, less the amount of any interest actually paid (including accrued and unpaid interest that is to be paid as part of the Provisional Redemption Price) on such Security on or prior to the Provisional Redemption Date. The Company shall make the Make-Whole Payment on all Securities called for Provisional Redemption, including those Securities converted into Common Stock between the Notice Date and the Provisional Redemption Date. The Company may elect, at its option, to pay the Make-Whole Payment in Common Stock instead of cash, subject to the provisions of this Section 3.1. The Company will specify the type of consideration for the Make-Whole Payment in the redemption notice.

The Company may elect to pay the Make-Whole Payment by delivery of shares of Common Stock pursuant to this Section if and only if the following four conditions shall have been satisfied and certified to the Trustee by the Company:

(1) The shares of Common Stock deliverable in payment of the Make-Whole Payment shall have a fair market value as of the Provisional Redemption Date of not less than the Make-Whole Payment. For purposes of this Section, the fair market value of shares of Common Stock shall be determined by the Company and shall be equal to 95% of the average of the Closing Prices for the five consecutive Trading Days immediately preceding the Trading Day prior to the Provisional Redemption Date;

(2) Payment of the Make-Whole Payment may not be made in Common Stock unless such stock is, or shall have been, approved for quotation on the Nasdaq National Market or listed on a national securities exchange, in either case, prior to the Provisional Redemption Date;

(3) All shares of Common Stock deliverable in payment of the Make-Whole Payment will be issued out of the Company's authorized but unissued Common Stock and, will upon issue, be duly and validly issued and fully paid and non-assessable and free of any preemptive rights; and

(4) The Make-Whole Payment shall be paid only in cash in the event any shares of Common Stock to be issued in connection with the Make-Whole Payment hereunder (i) require registration under any federal securities law before such shares may be freely transferable without being subject to any transfer restrictions under the Securities Act and if such registration is not completed or does not become effective prior to the Provisional Redemption Date, and/or (ii) require registration with or approval of any governmental authority under any state law or any other federal law before such shares may be validly issued or delivered and if such registration is not completed or does not become effective or such approval is not obtained prior to the Provisional Redemption Date.

If all of the conditions set forth in this Section are not satisfied in accordance with the terms thereof, the Make-Whole Payment shall be paid by the Company only in cash.

Any issuance of shares of Common Stock in respect of any Make-Whole Payment shall be deemed to have been effected immediately prior to the close of business on the Provisional Redemption Date and the Person or Persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such Make-Whole Payment shall be deemed to have become on the Provisional Redemption Date the holder or holders of record of the shares represented thereby; provided, however, that any surrender on a date when the stock transfer books of the Company shall be closed shall constitute the Person or Persons in whose name or names the certificate or certificates for such shares are to be issued as the record holder or holders thereof for all purposes at the opening of business on the next succeeding day on which such stock transfer books are open. No payment or adjustment shall be made for dividends or distributions on any Common Stock issued prior to the Provisional Redemption Date.

No fractions of shares shall be issued in the event the Company issues Common Stock instead of cash for the Make-Whole Payment. If more than one Security shall be redeemed from the same Holder and the Make-Whole Payment shall be payable in shares of Common Stock, the number of full shares which shall be issuable in connection with the Make-Whole Payment shall be computed on the basis of the aggregate principal amount of the Make-Whole Payment to be paid for all the Securities held by such Holder. Instead of issuing any fractional share of Common Stock which would otherwise be issuable in connection with any Make-Whole Payment, the Company will deliver to the applicable Holder a check for the current market value ("Current Market Value") of such fractional share. The Current Market Value of a fraction of a share is determined by the Company by multiplying the current price of a full share by the fraction, and rounding the result to the nearest cent. For purposes of this Section 3.1 and 4.1(b), the current price of a share of Common

Stock is the Closing Price of the Common Stock on the Trading Day immediately preceding the Provisional Redemption Date (or, in the case of Section 4.1(b), the Conversion Date).

Any issuance and delivery of certificates for shares of Common Stock shall be made without charge to the Holder for such certificates or for any tax or duty in respect of the issuance or delivery of such certificates or the securities represented thereby; provided, however, that the Company shall not be required to pay any tax or duty which may be payable in respect of (i) income of the Holder or (ii) any transfer involved in the issuance or delivery of certificates for shares of Common Stock in a name other than that of the Holder, and no such issuance or delivery shall be made unless and until the Person requesting such issuance or delivery has paid to the Company the amount of any such tax or duty or has established, to the satisfaction of the Company, that such tax or duty has been paid.

(b) On or after the second anniversary of a Complying Public Equity Offering, the Securities may be redeemed at the election of the Company, as a whole or from time to time in part, at any time prior to maturity (an "Optional Redemption"), upon notice as set forth in Section 3.3, at the following optional Redemption Prices (expressed as percentages of the principal amount), together in each case with accrued and unpaid interest (including Additional Interest), if any, to, but excluding the date fixed for redemption (the "Optional Redemption Price"), if redeemed during the periods beginning August 15 of the years indicated:

PERIOD -----	REDEMPTION PRICE -----
2002.....	102.250%
2003.....	101.125%

and 100% of the principal amount on August 15, 2004, and at all times thereafter.

If the Company elects to redeem Securities (whether a Provisional Redemption or Optional Redemption) pursuant to this Section 3.1 and paragraph 5 of the Securities, it shall notify the Trustee at least 30 days prior to the Redemption Date as fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee) of the Redemption Date and the principal amount of Securities to be redeemed. If fewer than all of the Securities are to be redeemed, the record date relating to such redemption shall be selected by the Company and given to the Trustee, which record date shall not be less than ten days after the date of notice to the Trustee.

SECTION 3.2. SELECTION OF SECURITIES TO BE REDEEMED.

If less than all of the Securities are to be redeemed, the Trustee shall, not more than 45 days prior to the Redemption Date, select the Securities to be redeemed. The Trustee shall make the selection from the Securities outstanding and not previously called for redemption, by lot, or in its discretion, on a pro rata basis. Securities in denominations of \$1,000 may only be redeemed in whole. The Trustee may select for redemption portions (equal to \$1,000 or any multiple thereof) of the principal of Securities that have denominations larger than \$1,000. Provisions of this Indenture that apply to Securities called for redemption also apply to portions of Securities called for redemption.

If any Security selected for partial redemption is converted in part before termination of the conversion right with respect to the portion of the Security so selected, the converted portion of such Security shall be deemed to be the portion selected for redemption. Securities which have been converted during a

selection of Securities to be redeemed shall be treated by the Trustee as outstanding for the purpose of such selection.

SECTION 3.3. NOTICE OF REDEMPTION.

At least 20 days but not more than 60 days before a Redemption Date, the Company shall mail or cause to be mailed a notice of redemption to each Holder of Securities to be redeemed at such Holder's address as it appears on the Primary Registrar's books.

The notice shall identify the Securities (including CUSIP numbers) to be redeemed and shall state:

(1) the Redemption Date;

(2) the Redemption Price;

(3) the Conversion Price in effect as of the date of the notice and the Make-Whole Payment, if any, and whether any such Make-Whole Payment is to be paid in cash or delivery of shares of Common Stock;

(4) the name and address of each Paying Agent and Conversion Agent;

(5) that Securities called for redemption must be presented and surrendered to a Paying Agent to collect the Redemption Price;

(6) that Holders who wish to convert Securities must surrender such Securities for conversion no later than the close of business on the Business Day immediately preceding the Redemption Date and must satisfy the other requirements in paragraph 8 of the Securities; and

(7) that, unless the Company defaults in making the redemption payment, interest on Securities called for redemption shall cease accruing on and after the Redemption Date and the only remaining right of the Holder shall be to receive payment of the Redemption Price, if any upon presentation and surrender to a Paying Agent of the Securities; and

(8) if any Security is being redeemed in part, the portion of the principal amount of such Security to be redeemed and that, after the Redemption Date, upon presentation and surrender of such Security, a new Security or Securities in aggregate principal amount equal to the unredeemed portion thereof will be issued.

If any of the Securities to be redeemed is in the form of a Global Security, then the Company shall modify such notice to the extent necessary to accord with the procedures of the Depositary applicable to redemptions. At the Company's written request, which request shall (i) be irrevocable once given and (ii) set forth all relevant information required by clauses (1) through (8) of the preceding paragraph, the Trustee shall give the notice of redemption in the Company's name and at the Company's expense.

SECTION 3.4. EFFECT OF NOTICE OF REDEMPTION.

Once notice of redemption is mailed, Securities called for redemption become due and payable on the Redemption Date and at the Redemption Price stated in the notice, except for Securities that are converted in accordance with the provisions of Article 4. Upon presentation and surrender to a Paying Agent, Securities

called for redemption shall be paid at the Redemption Price, plus accrued interest up to but not including the Redemption Date; provided if the Redemption Date is an interest payment date, interest will be payable to the Holders in whose names the Securities are registered at the close of business on the relevant record dates for payment of such interest; provided that with respect to a Provisional Redemption, the holder of any Securities converted into Common Stock pursuant to the terms hereof after the Notice Date and prior to the Provisional Redemption Date shall have the right to the Make-Whole Payment regardless of the conversion of the Securities.

SECTION 3.5. DEPOSIT OF REDEMPTION PRICE.

Prior to 11:00 a.m. New York City time, on the Redemption Date, the Company shall deposit with a Paying Agent (or, if the Company acts as Paying Agent, shall segregate and hold in trust) money (or Common Stock if the Company elects to pay the Make-Whole Payment upon a Provisional Redemption in Common Stock instead of cash (along with cash for any fractional shares)) sufficient to pay the Redemption Price on all Securities to be redeemed on that date, other than Securities or portions thereof called for redemption on that date which have been delivered by the Company to the Trustee for cancellation or have been converted. The Paying Agent shall return to the Company any money not required for that purpose.

SECTION 3.6. SECURITIES REDEEMED IN PART.

Upon presentation and surrender of a Security that is redeemed in part, the Company shall execute and the Trustee shall authenticate and deliver to the Holder a new Security equal in principal amount to the unredeemed portion of the Security surrendered.

SECTION 3.7. CONVERSION ARRANGEMENT ON CALL FOR REDEMPTION.

In connection with any redemption of Securities, the Company may arrange for the purchase and conversion of any Securities called for redemption by an agreement with one or more investment bankers or other purchasers to purchase such Securities by paying to a Paying Agent (other than the Company or any of its Affiliates) in trust for the Holders, on or before 11:00 a.m. New York City time on the Redemption Date, an amount that, together with any amounts deposited with such Paying Agent by the Company for the redemption of such Securities, is not less than the Redemption Price, of such Securities. Notwithstanding anything to the contrary contained in this Article 3, the obligation of the Company to pay the Redemption Price of such Securities, shall be deemed to be satisfied and discharged to the extent such amount is so paid by such purchasers; provided, however, that nothing in this Section 3.7 shall relieve the Company of its obligation to pay the Redemption Price on Securities called for redemption. If such an agreement with one or more investment banks or other purchasers is entered into, any Securities called for redemption and not surrendered for conversion by the Holders thereof prior to the relevant Redemption Date may, at the option of the Company upon written notice to the Trustee, be deemed, to the fullest extent permitted by law, acquired by such purchasers from such Holders and (notwithstanding anything to the contrary contained in Article 4) surrendered by such purchasers for conversion, all as of 11:00 a.m. New York City time on the Redemption Date, subject to payment of the above amount as aforesaid (including the Make-Whole Payment, if any, with respect to all Securities called for Provisional Redemption). The Paying Agent shall hold and pay to the Holders whose Securities are selected for redemption any such amount paid to it for purchase in the same manner as it would money deposited with it by the Company for the redemption of Securities. Without the Paying Agent's prior written consent, no arrangement between the Company and such purchasers for the purchase and conversion of any Securities shall increase or otherwise affect any of the powers, duties, responsibilities or obligations of the Paying Agent as set forth in this Indenture, and the Company agrees to

indemnify the Paying Agent from, and hold it harmless against, any loss, liability or expense arising out of or in connection with any such arrangement for the purchase and conversion of any Securities between the Company and such purchasers, including the costs and expenses incurred by the Paying Agent in the defense of any claim or liability arising out of or in connection with the exercise or performance of any of its powers, duties, responsibilities or obligations under this Indenture.

SECTION 3.8. PURCHASE OF SECURITIES AT OPTION OF THE HOLDER UPON CHANGE IN CONTROL.

(a) If at any time that Securities remain outstanding there shall occur a Change in Control, Securities shall be purchased by the Company at the option of the Holders thereof as of the date that is 30 Business Days after the occurrence of the Change in Control (the "Change in Control Purchase Date") at a Change in Control Purchase Price (as defined below), subject to satisfaction by or on behalf of any Holder of the requirements set forth in subsection (c) of this Section 3.8.

The "Change of Control Purchase Price" shall be calculated by the Company and shall be (i) on or after the 90th day following a Complying Public Equity Offering, equal to 100% of the principal amount of such Security, or the portion thereof submitted for repurchase by the Holder, plus accrued and unpaid interest on such Security, or the portion thereof submitted for repurchase by the Holder, to, but excluding, the Change of Control Purchase Date and (ii) at any time prior to the 90th Day following a Complying Public Equity Offering, an amount calculated to provide, when taken together with all prior interest payments, a 15% compounded annual yield calculated on an approximate bond basis as follows:

[EQUATION]

Where: "CCPP" is the Change of Control Purchase Price; "P" is the amount of the principal outstanding; "n" is the number of interest payment dates elapsed since the Issue Date, "t" is the interest payment date number; "It" is the interest paid on the "t"th interest payment date; "(DELTA)c" is the total number days between the Issue Date and the Change of Control Purchase Date; and "(DELTA)it" is the total number of days between the "t"th interest payment date and the Change of Control Purchase Date.

Whenever in this Indenture there is a reference, in any context, to the principal of any Security as of any time, such reference shall be deemed to include reference to the Change of Control Purchase Price payable in respect of such Security to the extent that such Change of Control Purchase Price is, was or would be so payable at such time, and express mention of the Change of Control Purchase Price in any provision of this Indenture shall not be construed as excluding the Change of Control Purchase Price in those provisions of this Indenture when such express mention is not made.

A "Change in Control" shall be deemed to have occurred if any of the following occurs after the date hereof:

(1) any "person" or "group" (as such terms are defined below) is or becomes the "beneficial owner" (as defined below), directly or indirectly, of shares of Voting Stock of the Company representing 50% or more of the total voting power of all outstanding classes of Voting Stock of the Company or has the power, directly or indirectly, to elect a majority of the members of the Board of Directors of the Company; or

(2) the Company consolidates with, or merges with or into, another Person or the Company sells, assigns, conveys, transfers, leases or otherwise disposes of all or substantially all of the assets of the Company as an entirety or substantially as an entirety, or any Person consolidates with, or merges with or into, the Company, in any such event other than pursuant to a transaction in which the Persons that "beneficially owned" (as defined below), directly or indirectly, shares of Voting Stock of the Company immediately prior to such transaction "beneficially own" (as defined below), directly or indirectly, shares of Voting Stock of the Company representing at least a majority of the total voting power of all outstanding classes of Voting Stock of the surviving or transferee Person; or

(3) there shall occur the liquidation or dissolution of the Company.

For the purpose of the definition of "Change in Control", (i) "person" and "group" have the meanings given such terms under Section 13(d) and 14(d) of the Exchange Act or any successor provision to either of the foregoing, and the term "group" includes any group acting for the purpose of acquiring, holding or disposing of securities within the meaning of Rule 13d-5(b)(1) under the Exchange Act (or any successor provision thereto), (ii) a "beneficial owner" shall be determined in accordance with Rule 13d-3 under the Exchange Act, as in effect on the date of this Indenture, except that the number of shares of Voting Stock of the Company shall be deemed to include, in addition to all outstanding shares of Voting Stock of the Company and Unissued Shares deemed to be held by the "person" or "group" (as such terms are defined above) or other Person with respect to which the Change in Control determination is being made, all Unissued Shares deemed to be held by all other Persons, and (iii) the terms "beneficially owned" and "beneficially own" shall have meanings correlative to that of "beneficial owner". The term "Unissued Shares" means shares of Voting Stock not outstanding that are subject to options, warrants, rights to purchase or conversion privileges exercisable within 60 days of the date of determination of a Change in Control.

Notwithstanding anything to the contrary set forth in this Section 3.8, a Change in Control will not be deemed to have occurred if either:

(1) on or after the 90th day following a Complying Public Equity Offering, the average Closing Price of the Common Stock for the five consecutive Trading Days ending immediately after the later of the Change in Control or the public announcement of the Change in Control, in the case of a Change in Control relating to an acquisition of capital stock, or immediately before the Change in Control, in the case of change in control relating to a merger, consolidation or asset sale, equals or exceeds 105% of the Conversion Price of the Securities in effect on each of those Trading Days; or

(2) in the case of a merger or consolidation, at least 80% of the consideration, excluding cash payments for fractional shares, in the merger or consolidation constituting the Change in Control consists of common stock traded on a United States national securities exchange or quoted on the Nasdaq National Market (or which will be so traded or quoted when issued or exchanged in connection with such Change In Control) and as a result of such transaction or transactions the Securities become convertible solely into such common stock.

Notwithstanding anything to the contrary set forth in this Indenture, the reincorporation, standing alone, of the Company from a California corporation to a Delaware corporation in contemplation of a Complying Public Equity Offering will not constitute a Change in Control under this Indenture.

(b) Within 10 Business Days after the occurrence of a Change in Control, the Company shall mail a written notice of the Change in Control to the Trustee and to each Holder (and to beneficial owners as

required by applicable law). The notice shall include the form of a Change in Control Purchase Notice to be completed by the Holder and shall state:

- (1) the date of such Change in Control and, briefly, the events causing such Change in Control;
- (2) the date by which the Change in Control Purchase Notice pursuant to this Section 3.8 must be given;
- (3) the Change in Control Purchase Date;
- (4) the Change in Control Purchase Price;
- (5) briefly, the conversion rights of the Securities;
- (6) the name and address of each Paying Agent and Conversion Agent;
- (7) the Conversion Price and any adjustments thereto;
- (8) that Securities as to which a Change in Control Purchase Notice has been given may be converted into Common Stock pursuant to Article 4 of this Indenture only to the extent that the Change in Control Purchase Notice has been withdrawn in accordance with the terms of this Indenture;
- (9) the procedures that the Holder must follow to exercise rights under this Section 3.8;
- (10) the procedures for withdrawing a Change in Control Purchase Notice, including a form of notice of withdrawal; and
- (11) that the Holder must satisfy the requirements set forth in the Securities in order to convert the Securities.

If any of the Securities is in the form of a Global Security, then the Company shall modify such notice to the extent necessary to accord with the procedures of the Depository applicable to the repurchase of Global Securities.

(c) A Holder may exercise its rights specified in subsection (a) of this Section 3.8 upon delivery of a written notice (which shall be in substantially the form included in Exhibit A hereto and which may be delivered by letter, overnight courier, hand delivery, facsimile transmission or in any other written form and, in the case of Global Securities, may be delivered electronically or by other means in accordance with the Depository's customary procedures) of the exercise of such rights (a "Change in Control Purchase Notice") to any Paying Agent at any time prior to the close of business on the Business Day next preceding the Change in Control Purchase Date.

The delivery of such Security to any Paying Agent (together with all necessary endorsements) at the office of such Paying Agent shall be a condition to the receipt by the Holder of the Change in Control Purchase Price therefor.

The Company shall purchase from the Holder thereof, pursuant to this Section 3.8, a portion of a Security if the principal amount of such portion is \$1,000 or an integral multiple of \$1,000. Provisions of the

Indenture that apply to the purchase of all of a Security pursuant to Sections 3.8 through 3.13 also apply to the purchase of such portion of such Security.

Notwithstanding anything herein to the contrary, any Holder delivering to a Paying Agent the Change in Control Purchase Notice contemplated by this subsection (c) shall have the right to withdraw such Change in Control Purchase Notice in whole or in a portion thereof that is a principal amount of \$1,000 or in an integral multiple thereof at any time prior to the close of business on the Business Day next preceding the Change in Control Purchase Date by delivery of a written notice of withdrawal to the Paying Agent in accordance with Section 3.9.

A Paying Agent shall promptly notify the Company of the receipt by it of any Change in Control Purchase Notice or written withdrawal thereof.

Anything herein to the contrary notwithstanding, in the case of Global Securities, any Change in Control Purchase Notice may be delivered or withdrawn and such Securities may be surrendered or delivered for purchase in accordance with the Applicable Procedures as in effect from time to time.

SECTION 3.9. EFFECT OF CHANGE IN CONTROL PURCHASE NOTICE.

Upon receipt by any Paying Agent of the Change in Control Purchase Notice specified in Section 3.8(c), the Holder of the Security in respect of which such Change in Control Purchase Notice was given shall (unless such Change in Control Purchase Notice is withdrawn as specified below) thereafter be entitled to receive the Change in Control Purchase Price with respect to such Security. Such Change in Control Purchase Price shall be paid to such Holder promptly following the later of (a) the Change in Control Purchase Date with respect to such Security (provided the conditions in Section 3.8(c) have been satisfied) and (b) the time of delivery of such Security to a Paying Agent by the Holder thereof in the manner required by Section 3.8(c). Securities in respect of which a Change in Control Purchase Notice has been given by the Holder thereof may not be converted into shares of Common Stock on or after the date of the delivery of such Change in Control Purchase Notice unless such Change in Control Purchase Notice has first been validly withdrawn.

A Change in Control Purchase Notice may be withdrawn by means of a written notice (which may be delivered by letter, overnight courier, hand delivery, facsimile transmission or in any other written form and, in the case of Global Securities, may be delivered electronically or by other means in accordance with the Depository's customary procedures) of withdrawal delivered by the Holder to a Paying Agent at any time prior to the close of business on the Business Day immediately preceding the Change in Control Purchase Date, specifying the principal amount of the Security or portion thereof (which must be a principal amount of \$1,000 or an integral multiple of \$1,000 in excess thereof) with respect to which such notice of withdrawal is being submitted.

SECTION 3.10. DEPOSIT OF CHANGE IN CONTROL PURCHASE PRICE.

On or before 11:00 a.m. New York City time on the Change in Control Purchase Date, the Company shall deposit with the Trustee or with a Paying Agent (other than the Company or an Affiliate of the Company) an amount of money (in immediately available funds if deposited on such Business Day) sufficient to pay the aggregate Change in Control Purchase Price of all the Securities or portions thereof that are to be purchased as of such Change in Control Purchase Date. The manner in which the deposit required by this Section 3.10 is made by the Company shall be at the option of the Company, provided that such deposit shall

be made in a manner such that the Trustee or a Paying Agent shall have immediately available funds on the Change in Control Purchase Date.

If a Paying Agent holds, in accordance with the terms hereof, money sufficient to pay the Change in Control Purchase Price of any Security for which a Change in Control Purchase Notice has been tendered and not withdrawn in accordance with this Indenture then, on the Change in Control Purchase Date, such Security will cease to be outstanding and the rights of the Holder in respect thereof shall terminate (other than the right to receive the Change in Control Purchase Price as aforesaid). The Company shall publicly announce the principal amount of Securities purchased as a result of such Change in Control on or as soon as practicable after the Change in Control Purchase Date.

SECTION 3.11. SECURITIES PURCHASED IN PART.

Any Security that is to be purchased only in part shall be surrendered at the office of a Paying Agent and promptly after the Change in Control Purchase Date the Company shall execute and the Trustee shall authenticate and deliver to the Holder of such Security, without service charge, a new Security or Securities, of such authorized denomination or denominations as may be requested by such Holder, in aggregate principal amount equal to, and in exchange for, the portion of the principal amount of the Security so surrendered that is not purchased.

SECTION 3.12. COMPLIANCE WITH SECURITIES LAWS UPON PURCHASE OF SECURITIES.

In connection with any offer to purchase or purchase of Securities under Section 3.8, the Company shall (a) comply with Rule 13e-4 and Rule 14e-1 (or any successor to either such Rule), if applicable, under the Exchange Act, (b) file the related Schedule TO (or any successor or similar schedule, form or report) if required under the Exchange Act, and (c) otherwise comply with all federal and state securities laws in connection with such offer to purchase or purchase of Securities, all so as to permit the rights of the Holders and obligations of the Company under Sections 3.8 through 3.11 to be exercised in the time and in the manner specified therein.

SECTION 3.13. REPAYMENT TO THE COMPANY.

To the extent that the aggregate amount of cash deposited by the Company pursuant to Section 3.10 exceeds the aggregate Change in Control Purchase Price together with interest, if any, thereon of the Securities or portions thereof that the Company is obligated to purchase, then promptly after the Change in Control Purchase Date the Trustee or a Paying Agent, as the case may be, shall return any such excess cash to the Company.

ARTICLE 4 CONVERSION

SECTION 4.1. CONVERSION PRIVILEGE; ADDITIONAL PAYMENTS UPON CONVERSION DURING A CONVERSION BONUS PERIOD.

(a) Except as otherwise set forth herein, the Securities will not be convertible prior to the 90th day following our Complying Public Equity Offering. On or after the 90th day following our Complying Public Equity Offering, subject to the further provisions of this Section 4.1, a Holder of a Security may convert the

principal amount of such Security (or any portion thereof equal to \$1,000 or any integral multiple of \$1,000 in excess thereof) into Common Stock at any time prior to the close of business on the Final Maturity Date, at the Conversion Price then in effect; provided, however, that, if such Security is called for redemption or presented for purchase pursuant to Article 3, such conversion right shall terminate at the close of business on the Business Day immediately preceding the Redemption Date or Change in Control Purchase Date, as the case may be, for such Security or such earlier date as the Holder presents such Security for redemption or for purchase (unless the Company shall default in making the redemption payment or Change in Control Purchase Price payment when due, in which case the conversion right shall terminate at the close of business on the date such default is cured and such Security is redeemed or purchased, as the case may be). The number of shares of Common Stock issuable upon conversion of a Security shall be determined by dividing the principal amount of the Security or portion thereof surrendered for conversion by the Conversion Price in effect on the Conversion Date. The initial Conversion Price is set forth in paragraph 8 of the Securities and is subject to adjustment as provided in this Article 4.

Provisions of this Indenture that apply to conversion of all of a Security also apply to conversion of a portion of a Security.

A Security in respect of which a Holder has delivered a Change in Control Purchase Notice pursuant to Section 3.8(c) exercising the option of such Holder to require the Company to purchase such Security may be converted only if such Change in Control Purchase Notice is withdrawn by a written notice of withdrawal delivered to a Paying Agent prior to the close of business on the Business Day immediately preceding the Change in Control Purchase Date in accordance with Section 3.9.

A Holder of Securities is not entitled to any rights of a holder of Common Stock until such Holder has converted its Securities to Common Stock, and only to the extent such Securities are deemed to have been converted into Common Stock pursuant to this Article 4.

(b) During the period beginning on the 90th day following a Complying Public Equity Offering and prior to the second anniversary of a Complying Public Equity Offering (the "Bonus Conversion Period"), any Holder that elects to convert his Securities will be entitled to receive, along with the shares of Common Stock otherwise issuable upon conversion, a payment (the "Bonus Payment") calculated by the Company and equal to the amount of accrued interest per \$1,000 Security from the Issue Date of the Securities to the second anniversary date of a Complying Public Equity Offering, less the amount of interest actually paid and interest accrued and unpaid that will be paid in respect of the Securities being converted on the next interest payment date if the conversion date falls after a record date for the payment of interest and prior to an interest payment date; provided that the Bonus Payment will only be payable if:

(i) the Holder converts his Securities on the fifth Trading Day of a calendar month during the Bonus Conversion Period; and

(ii) the average of the Closing Prices of Common Stock during the last five Trading Days of the calendar month immediately preceding that Conversion Date has exceeded the Initial Public Offering Price.

The Company may elect to make the Bonus Payment in cash or shares of Common Stock. Payments made in Common Stock will be valued at 95% of the average of the Closing Prices of Common Stock during the period referenced in (ii) above. The Company will provide a notice to Holders of Securities at least 15 days prior to the date that a Bonus Payment might become due in the subsequent calendar month, stating

whether the Bonus Payment, if payable, would be in cash or Common Stock and stating that any Holder that elects to convert their Securities of the fifth Trading Day of a calendar month during the Bonus Conversion Period must provide the Company written notice of such election to convert their Securities at least one Trading Day prior to the fifth Trading Day.

The Company may elect to pay the Bonus Payment by delivery of shares of Common Stock pursuant to this Section if and only if the following three conditions are met and are certified to the Trustee by the Company:

(1) The shares of Common Stock deliverable in payment of the Bonus Payment shall have a fair market value as of the Conversion Date of not less than the Bonus Payment. For purposes of this Section, the fair market value of the shares of Common Stock shall be determined by the Company and shall be equal to 95% of the average of the Closing Prices for the five consecutive Trading Days immediately preceding the Trading Day prior to the Conversion Date;

(2) Payment of the Bonus Payment may not be made in Common Stock unless such stock is, or shall have been, approved for trading on the Nasdaq National Market or listed on a national securities exchange, in either case, prior to the Conversion Date.

(3) All shares of Common Stock which may be issued upon payment of the Bonus Payment will be issued out of the Company's authorized but unissued Common Stock and will, upon issuance, be duly and validly issued and fully paid and non-assessable and free of any preemptive rights.

If all the conditions set forth in (1), (2) and (3) above are not satisfied in accordance with the terms thereof, the Bonus Payment shall be paid by the Company only in cash.

If a Bonus Payment is made upon the conversion of a Security, no Make-Whole Payment will be made with respect to the conversion of such Security in connection with any Provisional Redemption in accordance with the provisions of Article 3.

Any issuance of shares of Common Stock in respect of any Bonus Payment shall be deemed to have been effected immediately prior to the close of business on the Conversion Date and the Person or Persons in whose names or names any certificate or certificates for shares of Common Stock shall be issuable upon such Bonus Payment shall be deemed to have become on the Conversion Date the holder or holders of record of the shares represented thereby; provided, however, that any surrender on a date when the stock transfer books of the Company shall be closed shall constitute the Person or Persons in whole name or names the certificate or certificates for such shares are to be issued as the record holder or holders thereof for all purposes at the opening of business on the next succeeding day on which such stock transfer books are open.

No fractions of shares of Common Stock shall be issued in the event the Company issues Common Stock instead of cash for the Bonus Payment. If more than one Security shall be converted from the same Holder and the Bonus Payment shall be payable in shares of Common Stock, the number of full shares which shall be issuable in connection with the Bonus Payment shall be computed by the Company on the basis of the aggregate principal amount of the Bonus Payment to be paid for all the Securities being submitted for conversion by such Holder. Instead of issuing any fractional share which would otherwise be issuable in connection with the Bonus Payment, the Company will deliver to the applicable Holder a check for the Current Market Value of such share of Common Stock.

Any issuance and delivery of certificates for shares of Common Stock shall be made without charge to the Holder for such certificates or for any tax or duty in respect of the issuance or delivery of such certificates or the securities represented thereby; provided, however, that the Company shall not be required to pay any tax or duty which may be payable in respect of (i) income of any Holder or (ii) any transfer involved in the issuance or delivery of the certificates for shares of Common Stock in a name other than the Holder, and no such issuance or delivery shall be made unless and until the Person requesting such issuance or delivery has paid to the Company the amount of any tax or duty or has established, to the satisfaction of the Company, that such tax or duty has been paid.

SECTION 4.2. CONVERSION PROCEDURE.

To convert a Security, a Holder must (a) complete and manually sign the conversion notice on the back of the Security and deliver such notice to a Conversion Agent, (b) surrender the Security to a Conversion Agent, (c) furnish appropriate endorsements and transfer documents if required by a Registrar or a Conversion Agent, and (d) pay any transfer or similar tax, if required. The date on which the Holder satisfies all of those requirements is the "Conversion Date." As soon as practicable after the Conversion Date, the Company shall deliver to the Holder through a Conversion Agent a certificate for the number of whole shares of Common Stock issuable upon the conversion and cash in lieu of any fractional shares pursuant to Section 4.3. Anything herein to the contrary notwithstanding, in the case of Global Securities, conversion notices may be delivered and such Securities may be surrendered for conversion in accordance with the Applicable Procedures as in effect from time to time.

The person in whose name the Common Stock certificate is registered shall be deemed to be a shareholder of record on the Conversion Date; provided, however, that no surrender of a Security on any date when the stock transfer books of the Company shall be closed shall be effective to constitute the person or persons entitled to receive the shares of Common Stock upon such conversion as the record holder or holders of such shares of Common Stock on such date, but such surrender shall be effective to constitute the person or persons entitled to receive such shares of Common Stock as the record holder or holders thereof for all purposes at the close of business on the next succeeding day on which such stock transfer books are open; provided, further, that such conversion shall be at the Conversion Price in effect on the Conversion Date as if the stock transfer books of the Company had not been closed. Upon conversion of a Security, such person shall no longer be a Holder of such Security. No payment or adjustment will be made for dividends or distributions on shares of Common Stock issued upon conversion of a Security.

Securities so surrendered for conversion (in whole or in part) during the period from the close of business on any regular record date to the opening of business on the next succeeding interest payment date (excluding Securities or portions thereof converted on the fifth Trading Day of any month in the Bonus Conversion Period and Securities or portions thereof called for redemption or presented for purchase upon a Change in Control on a Redemption Date or Change in Control Purchase Date, as the case may be, during the period beginning at the close of business on a regular record date and ending at the opening of business on the first Business Day after the next succeeding interest payment date, or if such interest payment date is not a Business Day, the second such Business Day) shall also be accompanied by payment in funds acceptable to the Company of an amount equal to the interest payable on such interest payment date on the principal amount of such Security then being converted, and such interest shall be payable to such registered Holder notwithstanding the conversion of such Security, subject to the provisions of this Indenture relating to the payment of defaulted interest by the Company. Except as otherwise provided in this Section 4.2, no payment or adjustment will be made for accrued interest on a converted Security. If the Company defaults in the

payment of interest payable on such interest payment date, the Company shall promptly repay such funds to such Holder.

Nothing in this Section shall affect the right of a Holder in whose name any Security is registered at the close of business on a record date to receive the interest payable on such Security on the related interest payment date in accordance with the terms of this Indenture and the Securities. If a Holder converts more than one Security at the same time, the number of shares of Common Stock issuable upon the conversion shall be based on the aggregate principal amount of Securities converted.

Upon surrender of a Security that is converted in part, the Company shall execute, and the Trustee shall authenticate and deliver to the Holder, a new Security equal in principal amount to the unconverted portion of the Security surrendered.

SECTION 4.3. FRACTIONAL SHARES.

The Company will not issue fractional shares of Common Stock upon conversion of Securities. In lieu thereof, the Company will pay an amount in cash based upon the Current Market Price of the Common Stock on the Trading Day immediately prior to the Conversion Date.

SECTION 4.4. TAXES ON CONVERSION.

If a Holder converts a Security, the Company shall pay any documentary, stamp or similar issue or transfer tax due on the issue of shares of Common Stock upon such conversion. However, the Holder shall pay any such tax which is due because the Holder requests the shares to be issued in a name other than the Holder's name. The Conversion Agent may refuse to deliver the certificate representing the Common Stock being issued in a name other than the Holder's name until the Conversion Agent receives a sum sufficient to pay any tax which will be due because the shares are to be issued in a name other than the Holder's name. Nothing herein shall preclude any tax withholding required by law or regulation.

SECTION 4.5. COMPANY TO PROVIDE STOCK.

The Company shall promptly after the determination of the Conversion Price after the 20th Trading Day following a Complying Public Equity Offering in accordance with paragraph 8 of the Securities (but in no event later than the 90th day following a Complying Public Equity Offering) and from time to time as may be necessary thereafter, reserve, out of its authorized but unissued Common Stock, a sufficient number of shares of Common Stock to permit the conversion of all outstanding Securities into shares of Common Stock.

All shares of Common Stock delivered upon conversion of the Securities shall be newly issued shares, shall be duly authorized, validly issued, fully paid and nonassessable and shall be free from preemptive rights and free of any lien or adverse claim.

The Company will endeavor promptly to comply with all federal and state securities laws regulating the offer and delivery of shares of Common Stock upon conversion of Securities, if any, and will list or cause to have quoted such shares of Common Stock on each national securities exchange or on the Nasdaq National Market or other over-the-counter market or such other market on which the Common Stock is then listed or quoted; provided, however, that if rules of such automated quotation system or exchange permit the Company to defer the listing of such Common Stock until the first conversion of the Notes into Common Stock in accordance with the provisions of this Indenture, the Company covenants to list such Common Stock issuable

upon conversion of the Notes in accordance with the requirements of such automated quotation system or exchange at such time.

SECTION 4.6. ADJUSTMENT OF CONVERSION PRICE.

The conversion price as stated in paragraph 8 of the Securities (the "Conversion Price") shall be adjusted from time to time by the Company as follows:

(a) In case the Company shall (i) pay a dividend on its Common Stock in shares of Common Stock, (ii) make a distribution on its Common Stock in shares of Common Stock, (iii) subdivide its outstanding Common Stock into a greater number of shares, or (iv) combine its outstanding Common Stock into a smaller number of shares, the Conversion Price in effect immediately prior thereto shall be adjusted so that the Holder of any Security thereafter surrendered for conversion shall be entitled to receive that number of shares of Common Stock which it would have owned had such Security been converted immediately prior to the happening of such event. An adjustment made pursuant to this subsection (a) shall become effective immediately after the record date in the case of a dividend or distribution and shall become effective immediately after the effective date in the case of subdivision or combination.

(b) In case the Company shall issue rights or warrants to all or substantially all holders of its Common Stock entitling them (for a period commencing no earlier than the record date described below and expiring not more than 60 days after such record date) to subscribe for or purchase shares of Common Stock (or securities convertible into Common Stock) at a price per share (or having a conversion price per share) less than the current market price per share of Common Stock (as determined in accordance with subsection (d) of this Section 4.6) on the record date for the determination of shareholders entitled to receive such rights or warrants, the Conversion Price in effect immediately prior thereto shall be adjusted so that the same shall equal the price determined by multiplying the Conversion Price in effect immediately prior to such record date by a fraction of which the numerator shall be the number of shares of Common Stock outstanding on such record date plus the number of shares which the aggregate offering price of the total number of shares of Common Stock so offered (or the aggregate conversion price of the convertible securities so offered, which shall be determined by multiplying the number of shares of Common Stock issuable upon conversion of such convertible securities by the conversion price per share of Common Stock pursuant to the terms of such convertible securities) would purchase at the current market price per share (as defined in subsection (d) of this Section 4.6) of Common Stock on such record date, and of which the denominator shall be the number of shares of Common Stock outstanding on such record date plus the number of additional shares of Common Stock offered (or into which the convertible securities so offered are convertible). Such adjustment shall be made successively whenever any such rights or warrants are issued, and shall become effective immediately after such record date. If at the end of the period during which such rights or warrants are exercisable not all rights or warrants shall have been exercised, the adjusted Conversion Price shall be immediately readjusted to what it would have been based upon the number of additional shares of Common Stock actually issued (or the number of shares of Common Stock issuable upon conversion of convertible securities actually issued).

(c) In case the Company shall distribute to all or substantially all holders of its Common Stock any shares of capital stock of the Company (other than Common Stock), evidences of indebtedness or other non-cash assets (including securities of any person other than the Company but excluding (1) dividends on distributions paid exclusively in cash or (2) dividends or distributions referred to in subsection (a) of this Section 4.6, or shall distribute to all or substantially all holders of its Common Stock rights or warrants to subscribe for or purchase any of its securities (excluding those rights and warrants referred to in subsection (b) of this Section 4.6 and also excluding the distribution of rights to all holders of Common Stock

pursuant to the adoption of a shareholders rights plan or the detachment of such rights under the terms of such shareholder rights plan), then in each such case the Conversion Price shall be adjusted so that the same shall equal the price determined by multiplying the current Conversion Price by a fraction of which the numerator shall be the current market price per share (as defined in subsection (d) of this Section 4.6) of the Common Stock on the record date mentioned below less the fair market value on such record date (as determined by the Board of Directors, whose determination shall be conclusive evidence of such fair market value and which shall be evidenced by an Officers' Certificate delivered to the Trustee) of the portion of the capital stock, evidences of indebtedness or other non-cash assets so distributed or of such rights or warrants applicable to one share of Common Stock (determined on the basis of the number of shares of Common Stock outstanding on the record date), and of which the denominator shall be the current market price per share (as defined in subsection (d) of this Section 4.6) of the Common Stock on such record date. Such adjustment shall be made successively whenever any such distribution is made and shall become effective immediately after the record date for the determination of shareholders entitled to receive such distribution.

(1) In case the Company shall, by dividend or otherwise, at any time distribute (a "Triggering Distribution") to all or substantially all holders of its Common Stock cash in an aggregate amount that, together with the aggregate amount of (A) any cash and the fair market value (as determined by the Board of Directors, whose determination shall be conclusive evidence thereof and which shall be evidenced by an Officers' Certificate delivered to the Trustee) of any other consideration payable in respect of any tender offer by the Company or a Subsidiary of the Company for Common Stock consummated within the 12 months preceding the date of payment of the Triggering Distribution and in respect of which no Conversion Price adjustment pursuant to this Section 4.6 has been made and (B) all other cash distributions to all or substantially all holders of its Common Stock made within the 12 months preceding the date of payment of the Triggering Distribution and in respect of which no Conversion Price adjustment pursuant to this Section 4.6 has been made, exceeds an amount equal to 10.0% of the product of the current market price per share of Common Stock (as determined in accordance with subsection (d) of this Section 4.6) on the Business Day (the "Determination Date") immediately preceding the day on which such Triggering Distribution is declared by the Company multiplied by the number of shares of Common Stock outstanding on the Determination Date (excluding shares held in the treasury of the Company), the Conversion Price shall be reduced so that the same shall equal the price determined by multiplying such Conversion Price in effect immediately prior to the Determination Date by a fraction of which the numerator shall be the current market price per share of the Common Stock (as determined in accordance with subsection (d) of this Section 4.6) on the Determination Date less the sum of the aggregate amount of cash and the aggregate fair market value (determined as aforesaid in this Section 4.6(c)(1)) of any such other consideration so distributed, paid or payable within such 12 months (including, without limitation, the Triggering Distribution) applicable to one share of Common Stock (determined on the basis of the number of shares of Common Stock outstanding on the Determination Date) and the denominator shall be such current market price per share of the Common Stock (as determined in accordance with subsection (d) of this Section 4.6) on the Determination Date, such reduction to become effective immediately prior to the opening of business on the day following the date on which the Triggering Distribution is paid.

(2) In case any tender offer made by the Company or any of its Subsidiaries for Common Stock shall expire and such tender offer (as amended upon the expiration thereof) shall involve the payment of aggregate consideration in an amount (determined as the sum of the aggregate amount of cash consideration and the aggregate fair market value (as determined by the Board of Directors, whose determination shall be conclusive evidence thereof and which shall be evidenced by an Officers' Certificate delivered to the Trustee thereof) of any other consideration) that, together with the aggregate amount of (A) any cash and the fair market value (as determined by the Board of Directors, whose determination shall be

conclusive evidence thereof and which shall be evidenced by an Officers' Certificate delivered to the Trustee) of any other consideration payable in respect of any other tender offers by the Company or any Subsidiary of the Company for Common Stock consummated within the 12 months preceding the date of the Expiration Date (as defined below) and in respect of which no Conversion Price adjustment pursuant to this Section 4.6 has been made and (B) all cash distributions to all or substantially all holders of its Common Stock made within the 12 months preceding the Expiration Date and in respect of which no Conversion Price adjustment pursuant to this Section 4.6 has been made, exceeds an amount equal to 10.0% of the product of the current market price per share of Common Stock (as determined in accordance with subsection (d) of this Section 4.6) as of the last date (the "Expiration Date") tenders could have been made pursuant to such tender offer (as it may be amended) (the last time at which such tenders could have been made on the Expiration Date is hereinafter sometimes called the "Expiration Time") multiplied by the number of shares of Common Stock outstanding (including tendered shares but excluding any shares held in the treasury of the Company) at the Expiration Time, then, immediately prior to the opening of business on the day after the Expiration Date, the Conversion Price shall be reduced so that the same shall equal the price determined by multiplying the Conversion Price in effect immediately prior to close of business on the Expiration Date by a fraction of which the numerator shall be the product of the number of shares of Common Stock outstanding (including tendered shares but excluding any shares held in the treasury of the Company) at the Expiration Time multiplied by the current market price per share of the Common Stock (as determined in accordance with subsection (d) of this Section 4.6) on the Trading Day next succeeding the Expiration Date and the denominator shall be the sum of (x) the aggregate consideration (determined as aforesaid) payable to shareholders based on the acceptance (up to any maximum specified in the terms of the tender offer) of all shares validly tendered and not withdrawn as of the Expiration Time (the shares deemed so accepted, up to any such maximum, being referred to as the "Purchased Shares") and (y) the product of the number of shares of Common Stock outstanding (less any Purchased Shares and excluding any shares held in the treasury of the Company) at the Expiration Time and the current market price per share of Common Stock (as determined in accordance with subsection (d) of this Section 4.6) on the Trading Day next succeeding the Expiration Date, such reduction to become effective immediately prior to the opening of business on the day following the Expiration Date. In the event that the Company is obligated to purchase shares pursuant to any such tender offer, but the Company is permanently prevented by applicable law from effecting any or all such purchases or any or all such purchases are rescinded, the Conversion Price shall again be adjusted to be the Conversion Price which would have been in effect based upon the number of shares actually purchased. If the application of this Section 4.6(c)(2) to any tender offer would result in an increase in the Conversion Price, no adjustment shall be made for such tender offer under this Section 4.6(c)(2).

(3) For purposes of this Section 4.6(c), the term "tender offer" shall mean and include both tender offers and exchange offers, all references to "purchases" of shares in tender offers (and all similar references) shall mean and include both the purchase of shares in tender offers and the acquisition of shares pursuant to exchange offers, and all references to "tendered shares" (and all similar references) shall mean and include shares tendered in both tender offers and exchange offers.

(d) For the purpose of any computation under subsections (a), (b) and (c) of this Section 4.6, the current market price per share of Common Stock ("Current Market Price") on any date shall be deemed to be the average of the daily Closing Prices for the 30 consecutive Trading Days commencing 45 Trading Days before (i) the Determination Date or the Expiration Date, as the case may be, with respect to distributions or tender offers under subsection (d) of this Section 4.6 or (ii) the record date with respect to distributions, issuances or other events requiring such computation under subsection (a) or (b) of this Section 4.6. The Closing Price ("Closing Price") for each day shall be the last reported sales price or, in case no such reported sale takes place on such date, the average of the reported closing bid and asked prices in either case on the

Nasdaq National Market (the "NNM") or, if the Common Stock is not listed or admitted to trading on the NNM, on the principal national securities exchange on which the Common Stock is listed or admitted to trading or, if not listed or admitted to trading on the NNM or any national securities exchange, the last reported sales price of the Common Stock as quoted on NASDAQ or, in case no reported sales takes place, the average of the closing bid and asked prices as quoted on NASDAQ or any comparable system or, if the Common Stock is not quoted on NASDAQ or any comparable system, the closing sales price or, in case no reported sale takes place, the average of the closing bid and asked prices, as furnished by any two members of the National Association of Securities Dealers, Inc. selected from time to time by the Company for that purpose. If no such prices are available, the Current Market Price per share shall be the fair value of a share of Common Stock as determined in good faith by the Board of Directors (which shall be evidenced by an Officers' Certificate delivered to the Trustee).

(e) In any case in which this Section 4.6 shall require that an adjustment be made following a record date or a Determination Date or Expiration Date, as the case may be, established for purposes of this Section 4.6, the Company may elect to defer (but only until five Business Days following the filing by the Company with the Trustee of the certificate described in Section 4.9) issuing to the Holder of any Security converted after such record date or Determination Date or Expiration Date the shares of Common Stock and other capital stock of the Company issuable upon such conversion over and above the shares of Common Stock and other capital stock of the Company issuable upon such conversion only on the basis of the Conversion Price prior to adjustment; and, in lieu of the shares the issuance of which is so deferred, the Company shall issue or cause its transfer agents to issue due bills or other appropriate evidence prepared by the Company of the right to receive such shares. If any distribution in respect of which an adjustment to the Conversion Price is required to be made as of the record date or Determination Date or Expiration Date therefor is not thereafter made or paid by the Company for any reason, the Conversion Price shall be readjusted to the Conversion Price which would then be in effect if such record date had not been fixed or such effective date or Determination Date or Expiration Date had not occurred.

SECTION 4.7. NO ADJUSTMENT.

No adjustment in the Conversion Price shall be required unless the adjustment would require an increase or decrease of at least 1% in the Conversion Price as last adjusted; provided, however, that any adjustments which by reason of this Section 4.7 are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Article 4 shall be made to the nearest cent or to the nearest one-hundredth of a share, as the case may be.

No adjustment need be made for issuances of Common Stock pursuant to a Company plan for reinvestment of dividends or interest or for a change in the par value or a change to no par value of the Common Stock.

To the extent that the Securities become convertible into the right to receive cash, no adjustment need be made thereafter as to the cash. Interest will not accrue on the cash.

SECTION 4.8. ADJUSTMENT FOR TAX PURPOSES.

The Company shall be entitled to make such reductions in the Conversion Price, in addition to those required by Section 4.6, as it in its discretion shall determine to be advisable in order that any stock dividends, subdivisions of shares, distributions of rights to purchase stock or securities or distributions of securities

convertible into or exchangeable for stock hereafter made by the Company to its shareholders shall not be taxable.

SECTION 4.9. NOTICE OF ADJUSTMENT.

When the Conversion Price is established in accordance with the provisions of paragraph 8 of the Securities, and whenever the Conversion Price or conversion privilege is thereafter adjusted, the Company shall promptly mail to Securityholders a notice of the adjustment and file with the Trustee an Officers' Certificate briefly stating the facts requiring the adjustment and the manner of computing it. Unless and until the Trustee shall receive an Officers' Certificate setting forth an adjustment of the Conversion Price, the Trustee may assume without inquiry that the Conversion Price has not been adjusted and that the last Conversion Price of which it has knowledge remains in effect.

SECTION 4.10. NOTICE OF CERTAIN TRANSACTIONS.

In the event that:

(1) the Company takes any action which would require an adjustment in the Conversion Price;

(2) the Company consolidates or merges with, or transfers all or substantially all of its property and assets to, another corporation and shareholders of the Company must approve the transaction (other than with respect to a reincorporation of the Company from the State of California to the State of Delaware in contemplation of a Complying Public Equity Offering); or

(3) there is a dissolution or liquidation of the Company;

the Company shall mail to Holders and file with the Trustee a notice stating the proposed record or effective date, as the case may be. The Company shall mail the notice at least ten days before such date. Failure to mail such notice or any defect therein shall not affect the validity of any transaction referred to in clause (1), (2) or (3) of this Section 4.10.

SECTION 4.11. EFFECT OF RECLASSIFICATION, CONSOLIDATION, MERGER OR SALE ON CONVERSION PRIVILEGE.

If any of the following shall occur, namely: (a) any reclassification or change of shares of Common Stock issuable upon conversion of the Securities (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination, or any other change for which an adjustment is provided in Section 4.6); (b) any consolidation or merger or combination to which the Company is a party other than a merger in which the Company is the continuing corporation and which does not result in any reclassification of, or change (other than in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination) in, outstanding shares of Common Stock; or (c) any sale or conveyance as an entirety or substantially as an entirety of the property and assets of the Company, directly or indirectly, to any person, then the Company, or such successor, purchasing or transferee corporation, as the case may be, shall, as a condition precedent to such reclassification, change, combination, consolidation, merger, sale or conveyance, execute and deliver to the Trustee a supplemental indenture providing that the Holder of each Security then outstanding shall have the right to convert such Security, even though the Security would not otherwise have become convertible, into the kind and amount of shares of stock and other securities and property (including cash) receivable upon such reclassification,

change, combination, consolidation, merger, sale or conveyance by a holder of the number of shares of Common Stock deliverable upon conversion of such Security immediately prior to such reclassification, change, combination, consolidation, merger, sale or conveyance. Such supplemental indenture shall provide for adjustments of the Conversion Price which shall be as nearly equivalent as may be practicable to the adjustments of the Conversion Price provided for in this Article 4. If, in the case of any such consolidation, merger, combination, sale or conveyance, the stock or other securities and property (including cash) receivable thereupon by a holder of Common Stock include shares of stock or other securities and property of a person other than the successor, purchasing or transferee corporation, as the case may be, in such consolidation, merger, combination, sale or conveyance, then such supplemental indenture shall also be executed by such other person and shall contain such additional provisions to protect the interests of the Holders of the Securities as the Board of Directors shall reasonably consider necessary by reason of the foregoing. The provisions of this Section 4.11 shall similarly apply to successive reclassifications, changes, combinations, consolidations, mergers, sales or conveyances. In the event of any such consolidation, merger, combination, sale or conveyance prior to the 21st Trading Day following a Complying Public Equity Offering, holders will be entitled to convert their Securities, even if the Securities would not otherwise have become convertible pursuant to Article 4, at a Conversion Price of \$55.40, subject to adjustment, if any, pursuant to Section 4.6. On or after the 21st Trading Day following a Complying Public Equity Offering, the Conversion Price will be the Conversion Price then in effect.

In the event the Company shall execute a supplemental indenture pursuant to this Section 4.11, the Company shall promptly file with the Trustee (x) an Officers' Certificate briefly stating the reasons therefor, the kind or amount of shares of stock or other securities or property (including cash) receivable by Holders of the Securities upon the conversion of their Securities after any such reclassification, change, combination, consolidation, merger, sale or conveyance, any adjustment to be made with respect thereto and that all conditions precedent have been complied with and (y) an Opinion of Counsel that all conditions precedent have been complied with, and the Trustee shall promptly mail notice thereof to all Holders.

SECTION 4.12. TRUSTEE'S DISCLAIMER.

The Trustee shall have no duty to determine when an adjustment under this Article 4 should be made, how it should be made or what such adjustment should be, but may accept as conclusive evidence of that fact or the correctness of any such adjustment, and shall be protected in relying upon, an Officers' Certificate including the Officers' Certificate with respect thereto which the Company is obligated to file with the Trustee pursuant to Section 4.9. The Trustee makes no representation as to the validity or value of any securities or assets issued upon conversion of Securities, and the Trustee shall not be responsible for the Company's failure to comply with any provisions of this Article 4.

The Trustee shall not be under any responsibility to determine the correctness of any provisions contained in any supplemental indenture executed pursuant to Section 4.11, but may accept as conclusive evidence of the correctness thereof, and shall be fully protected in relying upon, the Officers' Certificate with respect thereto which the Company is obligated to file with the Trustee pursuant to Section 4.11.

SECTION 4.13. VOLUNTARY REDUCTION.

The Company from time to time may reduce the Conversion Price by any amount for any period of time if the period is at least 20 days and if the reduction is irrevocable during the period if our Board of Directors determines that such reduction would be in the best interest of the Company and the Company provides at least 15 days' prior notice of any reduction in the Conversion Price; provided, however, that in no

event may the Company reduce the Conversion Price to be less than the par value of a share of Common Stock.

ARTICLE 5
SUBORDINATION

SECTION 5.1. AGREEMENT OF SUBORDINATION.

The Company covenants and agrees, and each Holder of Securities issued hereunder by its acceptance thereof likewise covenants and agrees, that all Securities shall be issued subject to the provisions of this Article 5; and each Person holding any Security, whether upon original issue or upon transfer, assignment or exchange thereof, accepts and agrees to be bound by such provisions.

The payment of the principal of, premium, if any, and interest (including Additional Interest, if any) on all Securities (including, but not limited to, the Redemption Price with respect to the Securities called for redemption or the Change in Control Purchase Price with respect to the Securities subject to purchase in accordance with Article 3 as provided in this Indenture) issued hereunder shall, to the extent and in the manner hereinafter set forth, be subordinated and subject in right of payment to the prior payment in full in cash or payment satisfactory to the holders of Senior Indebtedness of all Senior Indebtedness, whether outstanding at the date of this Indenture or thereafter incurred.

No provision of this Article 5 shall prevent the occurrence of any default or Event of Default hereunder.

SECTION 5.2. PAYMENTS TO HOLDERS.

No payment shall be made with respect to the principal of, or premium, if any, or interest (including Additional Interest, if any) on the Securities (including, but not limited to, the Redemption Price with respect to the Securities to be called for redemption or the Change in Control Purchase Price with respect to the Securities subject to purchase in accordance with Article 3 as provided in this Indenture), except payments and distributions made by the Trustee as permitted by the first or second paragraph of Section 5.5, if:

(i) a default in the payment of principal, premium, interest, rent or other obligations due on any Designated Senior Indebtedness occurs and is continuing (or, in the case of Designated Senior Indebtedness for which there is a period of grace, in the event of such a default that continues beyond the period of grace, if any, specified in the instrument or lease evidencing such Designated Senior Indebtedness), unless and until such default shall have been cured or waived or shall have ceased to exist; or

(ii) a default, other than a payment default, on a Designated Senior Indebtedness occurs and is continuing that then permits holders of such Designated Senior Indebtedness to accelerate its maturity and the Trustee receives a notice of the default (a "Payment Blockage Notice") from a Representative or holder of Designated Senior Indebtedness or the Company.

Subject to the provisions of Section 5.5, if the Trustee receives any Payment Blockage Notice pursuant to clause (ii) above, no subsequent Payment Blockage Notice shall be effective for purposes of this Section unless and until at least 365 days shall have elapsed since the initial effectiveness of the immediately prior Payment Blockage Notice. No nonpayment default that existed or was continuing on the date of delivery of any Payment Blockage Notice to the Trustee (unless such default was waived, cured or otherwise

ceased to exist and thereafter subsequently reoccurred) shall be, or be made, the basis for a subsequent Payment Blockage Notice.

The Company may and shall resume payments on and distributions in respect of the Securities upon the earlier of:

(a) the date upon which the default is cured or waived or ceases to exist, or

(b) in the case of a default referred to in clause (ii) above, 179 days pass after a Payment Blockage Notice is received, unless this Article 5 otherwise prohibits the payment or distribution at the time of such payment or distribution.

Upon any payment by the Company, or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to creditors upon any dissolution or winding-up or liquidation or reorganization of the Company (whether voluntary or involuntary) or in bankruptcy, insolvency, receivership or similar proceedings, all amounts due or to become due upon all Senior Indebtedness shall first be paid in full in cash, or other payments satisfactory to the holders of Senior Indebtedness before any payment is made on account of the principal of, premium, if any, or interest (including Additional Interest, if any) on the Securities (except payments made pursuant to Article 10 from monies deposited with the Trustee pursuant thereto prior to commencement of proceedings for such dissolution, winding-up, liquidation or reorganization); and upon any such dissolution or winding-up or liquidation or reorganization of the Company or bankruptcy, insolvency, receivership or other proceeding, any payment by the Company, or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to which the Holders of the Securities or the Trustee would be entitled, except for the provision of this Article 5, shall (except as aforesaid) be paid by the Company or by any receiver, trustee in bankruptcy, liquidating trustee, agent or other Person making such payment or distribution, or by the Holders of the Securities or by the Trustee under this Indenture if received by them or it, directly to the holders of Senior Indebtedness (pro rata to such holders on the basis of the respective amounts of Senior Indebtedness held by such holders, or as otherwise required by law or a court order) or their representative or representatives, or to the trustee or trustees under any indenture pursuant to which any instruments evidencing any Senior Indebtedness may have been issued, as their respective interests may appear, to the extent necessary to pay all Senior Indebtedness in full in cash, or other payment satisfactory to the holders of Senior Indebtedness, after giving effect to any concurrent payment or distribution to or for the holders of Senior Indebtedness, before any payment or distribution is made to the Holders of the Securities or to the Trustee.

For purposes of this Article 5, the words, "cash, property or securities" shall not be deemed to include shares of stock of the Company as reorganized or readjusted, or securities of the Company or any other corporation provided for by a plan of reorganization or readjustment, the payment of which is subordinated at least to the extent provided in this Article 5 with respect to the Securities to the payment of all Senior Indebtedness which may at the time be outstanding; provided that (i) the Senior Indebtedness is assumed by the new corporation, if any, resulting from any reorganization or readjustment, and (ii) the rights of the holders of Senior Indebtedness (other than leases which are not assumed by the Company or the new corporation, as the case may be) are not, without the consent of such Holders, altered by such reorganization or readjustment. The consolidation of the Company with, or the merger of the Company into, another corporation or the liquidation or dissolution of the Company following the conveyance or transfer of its property as an entirety, or substantially as an entirety, to another corporation upon the terms and conditions provided for in Article 7 shall not be deemed a dissolution, winding-up, liquidation or reorganization for the

purposes of this Section 5.2 if such other corporation shall, as a part of such consolidation, merger, conveyance or transfer, comply with the conditions stated in Article 7.

In the event of the acceleration of the Securities because of an Event of Default, no payment or distribution shall be made to the Trustee or any Holder of Securities in respect of the principal of, premium, if any, or interest (including Additional Interest, if any) on the Securities (including, but not limited to, the Redemption Price with respect to the Securities called for redemption or the Change in Control Purchase Price with respect to the Securities subject to purchase in accordance with Article 3 as provided in this Indenture), except payments and distributions made by the Trustee as permitted by the first or second paragraph of Section 5.5, until all Senior Indebtedness has been paid in full in cash or other payment satisfactory to the holders of Senior Indebtedness or such acceleration is rescinded in accordance with the terms of this Indenture. If payment of the Securities is accelerated because of an Event of Default, the Company shall promptly notify holders of Senior Indebtedness of such acceleration.

In the event that, notwithstanding the foregoing provisions, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities (including, without limitation, by way of setoff or otherwise), prohibited by the foregoing, shall be received by the Trustee or the Holders of the Securities before all Senior Indebtedness is paid in full, in cash or other payment satisfactory to the holders of Senior Indebtedness, or provision is made for such payment thereof in accordance with its terms in cash or other payment satisfactory to the holders of Senior Indebtedness, such payment or distribution shall be held in trust for the benefit of and shall be paid over or delivered to the holders of Senior Indebtedness or their representative or representatives, or to the trustee or trustees under any indenture pursuant to which any instruments evidencing any Senior Indebtedness may have been issued, as their respective interests may appear, as calculated by the Company, for application to the payment of all Senior Indebtedness remaining unpaid to the extent necessary to pay all Senior Indebtedness in full, in cash or other payment satisfactory to the holders of Senior Indebtedness, after giving effect to any concurrent payment or distribution to or for the holders of such Senior Indebtedness.

Nothing in this Section 5.2 shall apply to claims of, or payments to, the Trustee under or pursuant to Section 9.7. This Section 5.2 shall be subject to the further provisions of Section 5.5.

SECTION 5.3. SUBROGATION OF SECURITIES.

Subject to the payment in full, in cash or other payment satisfactory to the holders of Senior Indebtedness, of all Senior Indebtedness, the rights of the Holders of the Securities shall be subrogated to the extent of the payments or distributions made to the holders of such Senior Indebtedness pursuant to the provisions of this Article 5 (equally and ratably with the holders of all indebtedness of the Company which by its express terms is subordinated to other indebtedness of the Company to substantially the same extent as the Securities are subordinated and is entitled to like rights of subrogation) to the rights of the holders of Senior Indebtedness to receive payments or distributions of cash, property or securities of the Company applicable to the Senior Indebtedness until the principal, premium, if any, and interest (including Additional Interest, if any) on the Securities shall be paid in full in cash or other payment satisfactory to the holders of Senior Indebtedness; and, for the purposes of such subrogation, no payments or distributions to the holders of the Senior Indebtedness of any cash, property or securities to which the Holders of the Securities or the Trustee would be entitled except for the provisions of this Article 5, and no payment over pursuant to the provisions of this Article 5, to or for the benefit of the holders of Senior Indebtedness by Holders of the Securities or the Trustee, shall, as between the Company, its creditors other than holders of Senior

Indebtedness, and the Holders of the Securities, be deemed to be a payment by the Company to or on account of the Senior Indebtedness; and no payments or distributions of cash, property or securities to or for the benefit of the Holders of the Securities pursuant to the subrogation provisions of this Article 5, which would otherwise have been paid to the holders of Senior Indebtedness shall be deemed to be a payment by the Company to or for the account of the Securities. It is understood that the provisions of this Article 5 are and are intended solely for the purposes of defining the relative rights of the Holders of the Securities, on the one hand, and the holders of the Senior Indebtedness, on the other hand.

Nothing contained in this Article 5 or elsewhere in this Indenture or in the Securities is intended to or shall impair, as among the Company, its creditors other than the holders of Senior Indebtedness, and the Holders of the Securities, the obligation of the Company, which is absolute and unconditional, to pay to the Holders of the Securities the principal of (and premium, if any) and interest on the Securities as and when the same shall become due and payable in accordance with their terms, or is intended to or shall affect the relative rights of the Holders of the Securities and creditors of the Company other than the holders of the Senior Indebtedness, nor shall anything herein or therein prevent the Trustee or the Holder of any Security from exercising all remedies otherwise permitted by applicable law upon default under this Indenture, subject to the rights, if any, under this Article 5 of the holders of Senior Indebtedness in respect of cash, property or securities of the Company received upon the exercise of any such remedy.

Upon any payment or distribution of assets of the Company referred to in this Article 5, the Trustee, subject to the provisions of Section 9.1, and the Holders of the Securities shall be entitled to rely upon any order or decree made by any court of competent jurisdiction in which such bankruptcy, dissolution, winding-up, liquidation or reorganization proceedings are pending, or a certificate of the receiver, trustee in bankruptcy, liquidating trustee, agent or other person making such payment or distribution, delivered to the Trustee or to the Holders of the Securities, for the purpose of ascertaining the persons entitled to participate in such distribution, the holders of the Senior Indebtedness and other indebtedness of the Company, the amount thereof or payable thereon and all other facts pertinent thereto or to this Article 5.

SECTION 5.4. AUTHORIZATION TO EFFECT SUBORDINATION.

Each Holder of a Security by the Holder's acceptance thereof authorizes and directs the Trustee on the Holder's behalf to take such action as may be necessary or appropriate to effectuate the subordination as provided in this Article 5 and appoints the Trustee to act as the Holder's attorney-in-fact for any and all such purposes. If the Trustee does not file a proper proof of claim or proof of debt in the form required in any proceeding referred to in Section 5.3 hereof at least 30 days before the expiration of the time to file such claim, the holders of any Senior Indebtedness or their representatives are hereby authorized to file an appropriate claim for and on behalf of the Holders of the Securities.

SECTION 5.5. NOTICE TO TRUSTEE.

The Company shall give prompt written notice in the form of an Officers' Certificate to a Trust Officer of the Trustee and to any Paying Agent of any fact known to the Company which would prohibit the making of any payment of monies to or by the Trustee or any Paying Agent in respect of the Securities pursuant to the provisions of this Article 5. Notwithstanding the provisions of this Article 5 or any other provision of this Indenture, the Trustee shall not be charged with knowledge of the existence of any facts which would prohibit the making of any payment of monies to or by the Trustee in respect of the Securities pursuant to the provisions of this Article 5, unless and until a Trust Officer of the Trustee shall have received written notice thereof at the Corporate Trust Office from the Company (in the form of an Officers' Certificate) or a Representative or a Holder or Holders of Senior Indebtedness or from any trustee thereof; and

before the receipt of any such written notice, the Trustee, subject to the provisions of Section 9.1, shall be entitled in all respects to assume that no such facts exist; provided that if on a date not fewer than one Business Day prior to the date upon which by the terms hereof any such monies may become payable for any purpose (including, without limitation, the payment of the principal of, or premium, if any, or interest on any Security) the Trustee shall not have received, with respect to such monies, the notice provided for in this Section 5.5, then, anything herein contained to the contrary notwithstanding, the Trustee shall have full power and authority to receive such monies and to apply the same to the purpose for which they were received, and shall not be affected by any notice to the contrary which may be received by it on or after such prior date. Notwithstanding anything in this Article 5 to the contrary, nothing shall prevent any payment by the Trustee to the Holders of monies deposited with it pursuant to Article 10, and any such payment shall not be subject to the provisions of Article 5.

The Trustee, subject to the provisions of Section 9.1, shall be entitled to rely on the delivery to it of a written notice by a Representative or a person representing himself to be a holder of Senior Indebtedness (or a trustee on behalf of such holder) to establish that such notice has been given by a Representative or a holder of Senior Indebtedness or a trustee on behalf of any such holder or holders. In the event that the Trustee determines in good faith that further evidence is required with respect to the right of any person as a holder of Senior Indebtedness to participate in any payment or distribution pursuant to this Article 5, the Trustee may request such Person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of Senior Indebtedness held by such Person, the extent to which such Person is entitled to participate in such payment or distribution and any other facts pertinent to the rights of such Person under this Article 5, and if such evidence is not furnished the Trustee may defer any payment to such Person pending judicial determination as to the right of such Person to receive such payment.

SECTION 5.6. TRUSTEE'S RELATION TO SENIOR INDEBTEDNESS.

The Trustee in its individual capacity shall be entitled to all the rights set forth in this Article 5 in respect of any Senior Indebtedness at any time held by it, to the same extent as any other holder of Senior Indebtedness, and nothing in Section 9.11 or elsewhere in this Indenture shall deprive the Trustee of any of its rights as such holder.

With respect to the holders of Senior Indebtedness, the Trustee undertakes to perform or to observe only such of its covenants and obligations as are specifically set forth in this Article 5, and no implied covenants or obligations with respect to the holders of Senior Indebtedness shall be read into this Indenture against the Trustee. The Trustee shall not be deemed to owe any fiduciary duty to the holders of Senior Indebtedness and, subject to the provisions of Section 9.1, the Trustee shall not be liable to any holder of Senior Indebtedness if it shall pay over or deliver to Holders of Securities, the Company or any other person money or assets to which any holder of Senior Indebtedness shall be entitled by virtue of this Article 5 or otherwise.

SECTION 5.7. NO IMPAIRMENT OF SUBORDINATION.

No right of any present or future holder of any Senior Indebtedness to enforce subordination as herein provided shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Company or by any act or failure to act, in good faith, by any such holder, or by any noncompliance by the Company with the terms, provisions and covenants of this Indenture, regardless of any knowledge thereof which any such holder may have or otherwise be charged with.

SECTION 5.8. CERTAIN CONVERSIONS DEEMED PAYMENT.

For the purposes of this Article 5 only, (1) the issuance and delivery of junior securities upon conversion of Securities in accordance with Article 4 or in connection with a Make-Whole Payment in accordance with Section 3.1 or a Bonus Payment in accordance with Section 4.1(b) shall not be deemed to constitute a payment or distribution on account of the principal of (or premium, if any) or interest on Securities or on account of the purchase or other acquisition of Securities, and (2) the payment, issuance or delivery of cash (except in satisfaction of fractional shares pursuant to Section 3.1, 4.1(b) or 4.3), property or securities (other than junior securities) upon conversion of a Security or in connection with a Make-whole payment in accordance with Section 3.1 or a Bonus Payment in accordance with 4.1(b) shall be deemed to constitute payment on account of the principal of such Security. For the purposes of this Section 5.8, the term "junior securities" means (a) shares of any stock of any class of the Company, or (b) securities of the Company which are subordinated in right of payment to all Senior Indebtedness which may be outstanding at the time of issuance or delivery of such securities to substantially the same extent as, or to a greater extent than, the Securities are so subordinated as provided in this Article. Nothing contained in this Article 5 or elsewhere in this Indenture or in the Securities is intended to or shall impair, as among the Company, its creditors other than holders of Senior Indebtedness and the Holders, the right, which is absolute and unconditional, of the Holder of any Security to convert such Security in accordance with Article 4.

SECTION 5.9. ARTICLE APPLICABLE TO PAYING AGENTS.

If at any time any Paying Agent other than the Trustee shall have been appointed by the Company and be then acting hereunder, the term "Trustee" as used in this Article shall (unless the context otherwise requires) be construed as extending to and including such Paying Agent within its meaning as fully for all intents and purposes as if such Paying Agent were named in this Article in addition to or in place of the Trustee; provided, however, that the first paragraph of Section 5.5 shall not apply to the Company or any Affiliate of the Company if it or such Affiliate acts as Paying Agent.

SECTION 5.10. SENIOR INDEBTEDNESS ENTITLED TO RELY.

The holders of Senior Indebtedness (including, without limitation, Designated Senior Indebtedness) shall have the right to rely upon this Article 5, and no amendment or modification of the provisions contained herein shall diminish the rights of such holders unless such holders shall have agreed in writing thereto.

ARTICLE 6
COVENANTS

SECTION 6.1. PAYMENT OF SECURITIES.

The Company shall promptly make all payments in respect of the Securities on the dates and in the manner provided in the Securities and this Indenture. An installment of principal (and premium, if any, including any Bonus Payment or Make-Whole Payment) or interest or Additional Interest, if any, shall be considered paid on the date it is due if the Paying Agent (other than the Company) holds by 11:00 a.m., New York City time, on that date money, deposited by the Company or an Affiliate thereof, sufficient to pay the installment. The Company shall, to the fullest extent permitted by law, pay interest on overdue principal (including premium, if any) and overdue installments of interest at the rate borne by the Securities per annum.

Payment of the principal of (and premium, if any) and any interest on the Securities shall be made at the office or agency of the Company maintained for that purpose in the Borough of Manhattan, The City of New York (which shall initially be State Street Bank and Trust Company, N.A., an Affiliate of the Trustee, as agent of the Trustee) or at the Corporate Trust Office of the Trustee in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; provided, however, that at the option of the Company, payment of interest may be made by check mailed to the address of the Person entitled thereto as such address appears in the Register; provided further that a Holder with an aggregate principal amount of \$2,000,000 or more may be paid by wire transfer in immediately available funds at the election of such Holder.

SECTION 6.2. SEC REPORTS.

The Company shall file all reports and other information and documents which it is required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act, and within 15 days after it files them with the SEC, the Company shall deliver copies of all such reports, information and other documents to the Trustee.

Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers' Certificates).

SECTION 6.3. COMPLIANCE CERTIFICATES.

The Company shall deliver to the Trustee, within 90 days after the end of each fiscal year of the Company (beginning with the fiscal year ending December 31, 2000), an Officers' Certificate as to the signer's knowledge of the Company's compliance with all conditions and covenants on its part contained in this Indenture and stating whether or not the signer knows of any default or Event of Default. If such signer knows of such a default or Event of Default, the Officers' Certificate shall describe the default or Event of Default and the Company's efforts to remedy the same. For the purposes of this Section 6.3, compliance shall be determined without regard to any grace period or requirement of notice provided pursuant to the terms of this Indenture.

SECTION 6.4. FURTHER INSTRUMENTS AND ACTS.

Upon request of the Trustee, the Company will execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purposes of this Indenture.

SECTION 6.5. MAINTENANCE OF CORPORATE EXISTENCE.

Subject to Article 7, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence.

SECTION 6.6. RULE 144A INFORMATION REQUIREMENT.

Within the period prior to the expiration of the holding period applicable to sales thereof under Rule 144(k) under the Securities Act (or any successor provision), the Company covenants and agrees that it shall, during any period in which it is not subject to Section 13 or 15(d) under the Exchange Act, make

available to any Holder or beneficial holder of Securities or any Common Stock issued upon conversion thereof which continue to be Restricted Securities in connection with any sale thereof and any prospective purchaser of Securities or such Common Stock designated by such Holder or beneficial holder, the information required pursuant to Rule 144A(d)(4) under the Securities Act upon the request of any Holder or beneficial holder of the Securities or such Common Stock and it will take such further action as any Holder or beneficial holder of such Securities or such Common Stock may reasonably request, all to the extent required from time to time to enable such Holder or beneficial holder to sell its Securities or Common Stock without registration under the Securities Act within the limitation of the exemption provided by Rule 144A, as such Rule may be amended from time to time. Upon the request of any Holder or any beneficial holder of the Securities or such Common Stock, the Company will deliver to such Holder a written statement as to whether it has complied with such requirements.

SECTION 6.7. STAY, EXTENSION AND USURY LAWS.

The Company covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law or other law which would prohibit or forgive the Company from paying all or any portion of the principal of, premium, if any, or interest (including Additional Interest, Bonus Payment and Make-Whole Payment, if any) on the Securities as contemplated herein, wherever enacted, now or at any time hereafter in force, or which may affect the covenants or the performance of this Indenture and the Company (to the extent it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

SECTION 6.8. PAYMENT OF ADDITIONAL INTEREST.

If Additional Interest is payable by the Company pursuant to the Registration Rights Agreement, the Company shall deliver to the Trustee a certificate to that effect stating (i) the amount of such Additional Interest that is payable and (ii) the date on which such Additional Interest is payable. Unless and until a Trust Officer of the Trustee receives such a certificate, the Trustee may assume without inquiry that no such Additional Interest is payable. If the Company has paid Additional Interest directly to the Persons entitled to it, the Company shall deliver to the Trustee a certificate setting forth at the particulars of such payment.

SECTION 6.9. DELIVERY OF CERTAIN INFORMATION.

Whether or not the Company is subject to Section 13(a) or 15(d) of the Exchange Act, or any successor provision thereto, the Company shall prepare the annual and quarterly reports which the Company would have been required to file with the Commission pursuant to such Section 13(a) or 15(d) or any successor provision thereto (including, until such time as the Company is required to file reports with the Commission pursuant to Section 13(a) or 15(d) of the Exchange Act, the condensed, combining financial data in the form and scope set forth in the condensed, consolidated financial statements described above) on or prior to the respective dates (the "Required Filing Dates") by which the Company would have been required so to file such documents. The Company shall also in any event within 15 days of each Required Filing Date (i) unless the Company is subject to Section 13(a) or 15(d) of the Exchange Act, transmit by mail to all Holders, as their names and addresses appear in the Register, without cost to such Holders, and (ii) deliver to the Trustee, copies of such annual and quarterly reports.

ARTICLE 7
CONSOLIDATION, MERGER, CONVEYANCE, TRANSFER OR LEASE

SECTION 7.1. COMPANY MAY CONSOLIDATE, ETC, ONLY ON CERTAIN TERMS.

The Company shall not consolidate with or merge into any other Person (in a transaction in which the Company is not the surviving corporation) or convey, transfer or lease its properties and assets substantially as an entirety to any Person, unless:

(1) in case the Company shall consolidate with or merge into another Person (in a transaction in which the Company is not the surviving corporation) or convey, transfer or lease its properties and assets substantially as an entirety to any Person, the Person formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Company substantially as an entirety shall be a corporation, limited liability company, partnership or trust, shall be organized and validly existing under the laws of the United States of America, any State thereof or the District of Columbia and shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the principal of and any premium and interest on all the Securities and the performance or observance of every covenant of this Indenture on the part of the Company to be performed or observed and the conversion rights shall be provided for in accordance with Article 4, by supplemental indenture satisfactory in form to the Trustee, executed and delivered to the Trustee, by the Person (if other than the Company) formed by such consolidation or into which the Company shall have been merged or by the Person which shall have acquired the Company's assets;

(2) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture, comply with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

SECTION 7.2. SUCCESSOR SUBSTITUTED.

Upon any consolidation of the Company with, or merger of the Company into, any other Person or any conveyance, transfer or lease of the properties and assets of the Company substantially as an entirety in accordance with Section 7.1, the successor Person formed by such consolidation or into which the Company is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor Person had been named as the Company herein, and thereafter, except in the case of a lease, the predecessor Person shall be relieved of all obligations and covenants under this Indenture and the Securities.

ARTICLE 8
DEFAULT AND REMEDIES

SECTION 8.1. EVENTS OF DEFAULT.

An "Event of Default" shall occur if:

(1) the Company defaults in the payment of any interest (or Additional Interest, if any, payable to all holders of Registrable Securities (as defined in the Registration Rights Agreement)) on any Security when the same becomes due and payable and the default continues for a period of 30 days, whether or not such payment shall be prohibited by the provisions of Article 5 hereof;

(2) the Company defaults in the payment of any principal of (including, without limitation, any premium, if any, on (including any Bonus Payment and Make-Whole Payment) any Security when the same becomes due and payable (whether at maturity, upon redemption, on a Change of Control Purchase Date or otherwise), whether or not such payment shall be prohibited by the provisions of Article 5 hereof;

(3) the Company fails to comply with any of its other agreements contained in the Securities or this Indenture and the default continues for the period and after the notice specified below;

(4) the Company pursuant to or within the meaning of any Bankruptcy Law:

- (A) commences a voluntary case or proceeding;
- (B) consents to the entry of an order for relief against it in an involuntary case or proceeding;
- (C) consents to the appointment of a Custodian of it or for all or substantially all of its property; or
- (D) makes a general assignment for the benefit of its creditors; or

(5) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

- (A) is for relief against the Company in an involuntary case or proceeding;
- (B) appoints a Custodian of the Company or for all or substantially all of the property of the Company; or
- (C) orders the liquidation of the Company;

and in each case the order or decree remains unstayed and in effect for 60 days.

The term "Bankruptcy Law" means Title 11 of the United States Code (or any successor thereto) or any similar federal or state law for the relief of debtors. The term "Custodian" means any receiver, trustee, assignee, liquidator, sequestrator or similar official under any Bankruptcy Law.

A default under clause (3) above is not an Event of Default until the Trustee notifies the Company, or the Holders of at least 25% in aggregate principal amount of the Securities then outstanding notify the Company and the Trustee, of the default, and the Company does not cure the default within 60 days after receipt of such notice. The notice given pursuant to this Section 8.1 must specify the default, demand that it be remedied and state that the notice is a "Notice of Default." When any default under this Section 8.1 is cured, it ceases.

The Trustee shall not be charged with knowledge of any Event of Default unless written notice thereof shall have been given to a Trust Officer at the Corporate Trust Office of the Trustee by the Company, a Paying Agent, any Holder or any agent of any Holder.

SECTION 8.2. ACCELERATION.

If an Event of Default (other than an Event of Default specified in clause (4) or (5) of Section 8.1) occurs and is continuing, the Trustee may, by notice to the Company, or the Holders of at least 25% in aggregate principal amount of the Securities then outstanding may, by notice to the Company and the Trustee, declare all unpaid principal to the date of acceleration equal to the Acceleration Amount on the Securities then outstanding (if not then due and payable) to be due and payable upon any such declaration, and the same shall become and be immediately due and payable. If an Event of Default specified in clause (4) or (5) of Section 8.1 occurs, all unpaid principal of the Securities then outstanding shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The amount that shall come due following the acceleration of a Security shall be the Acceleration Amount. The "Acceleration Amount" shall be (i) following a Complying Public Equity Offering, equal to 100% of the principal amount thereof plus accrued and unpaid interest and premium, if any, to, but excluding, the Acceleration Date; and (ii) at all other times, an amount calculated by the Company to provide, when taken together with all prior interest payments, a 15% compounded annual yield, to but excluding, the acceleration date calculated on an approximate bond basis as follows:

[EQUATION]

Where: "AA" is the Acceleration Amount; "P" is the amount of the principal outstanding; "n" is the number of interest payment dates elapsed since the Issue Date, "t" is the interest payment date number; "It" is the interest paid on the "t"th interest payment date; "(DELTA)c" is the total number days between the Issue Date and the date the Securities are accelerated; and "(DELTA)it" is the total number of days between the "t"th interest payment date and the date the Securities are accelerated.

Whenever in this Indenture there is a reference, in any context, to the principal of any Security as of any time, such reference shall be deemed to include reference to the Acceleration Amount payable in respect of such Security to the extent that such Acceleration Amount is, was or would be so payable at such time, and express mention of the Acceleration Amount in any provision of this Indenture shall not be construed as excluding the Acceleration Amount in those provisions of this Indenture when such express mention is not made.

The Holders of a majority in aggregate principal amount of the Securities then outstanding by notice to the Trustee and the Company may rescind an acceleration and its consequences if (a) all existing Events of Default, other than the nonpayment of the principal of the Securities which has become due solely by such declaration of acceleration, have been cured or waived; (b) to the extent the payment of such interest is lawful, interest (calculated at the rate per annum borne by the Securities) on overdue installments of interest and overdue principal, which has become due otherwise than by such declaration of acceleration, has been paid; (c) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction; and (d) all payments due to the Trustee and any predecessor Trustee under Section 9.7 have been made. No such rescission shall affect any subsequent default or impair any right consequent thereto.

SECTION 8.3. OTHER REMEDIES.

If an Event of Default occurs and is continuing, the Trustee may, but shall not be obligated to, pursue any available remedy by proceeding at law or in equity to collect the payment of the principal of or interest on the Securities or to enforce the performance of any provision of the Securities or this Indenture.

The Trustee may maintain a proceeding even if it does not possess any of the Securities or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Securityholder in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative to the extent permitted by law.

SECTION 8.4. WAIVER OF DEFAULTS AND EVENTS OF DEFAULT.

Subject to Sections 8.7 and 11.2, the Holders of a majority in principal amount of the Securities then outstanding by notice to the Trustee may waive an existing default or Event of Default and its consequence, except a default or Event of Default in the payment of the principal of or premium, if any, or Bonus Payment and Make-Whole Payment, if any, on, or interest on any Security, a failure by the Company to convert any Securities into Common Stock or any default or Event of Default in respect of any provision of this Indenture or the Securities which, under Section 11.2, cannot be modified or amended without the consent of the Holder of each Security affected. When a default or Event of Default is waived, it is cured and ceases.

SECTION 8.5. CONTROL BY MAJORITY.

The Holders of a majority in principal amount of the Securities then outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on it. However, the Trustee may refuse to follow any direction that conflicts with law or this Indenture, that the Trustee determines may be unduly prejudicial to the rights of another Holder or the Trustee, or that may involve the Trustee in personal liability unless the Trustee is offered indemnity satisfactory to it; provided, however, that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

SECTION 8.6. LIMITATIONS ON SUITS.

A Holder may not pursue any remedy with respect to this Indenture or the Securities (except actions for payment of overdue principal, premium or interest or for the conversion of the Securities pursuant to Article 4) unless:

(1) the Holder gives to the Trustee written notice of a continuing Event of Default;

(2) the Holders of at least 25% in principal amount of the then outstanding Securities make a written request to the Trustee to pursue the remedy;

(3) such Holder or Holders offer to the Trustee reasonable indemnity to the Trustee against any loss, liability or expense;

(4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; and

(5) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the Securities then outstanding.

A Securityholder may not use this Indenture to prejudice the rights of another Securityholder or to obtain a preference or priority over such other Securityholder.

SECTION 8.7. RIGHTS OF HOLDERS TO RECEIVE PAYMENT AND TO CONVERT.

Notwithstanding any other provision of this Indenture, the right of any Holder of a Security to receive payment of the principal of or any premium, if any, or interest on the Security, on or after the respective due dates expressed in the Security and this Indenture, to convert such Security in accordance with Article 4 and to bring suit for the enforcement of any such payment on or after such respective dates or the right to convert, is absolute and unconditional and shall not be impaired or affected without the consent of the Holder.

SECTION 8.8. COLLECTION SUIT BY TRUSTEE.

If an Event of Default in the payment of principal, premium, if any, or interest specified in clause (1) or (2) of Section 8.1 occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company or another obligor on the Securities for the whole amount of principal, premium, if any, and accrued interest remaining unpaid, together with, to the extent that payment of such interest is lawful, interest on overdue principal and on overdue installments of interest, in each case at the rate per annum borne by the Securities and such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

SECTION 8.9. TRUSTEE MAY FILE PROOFS OF CLAIM.

The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and the Holders allowed in any judicial proceedings relative to the Company (or any other obligor on the Securities), its creditors or its property and shall be entitled and empowered to collect and receive any money or other property payable or deliverable on any such claims and to distribute the same, and any Custodian in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 9.7, and to the extent that such payment of the reasonable compensation, expenses, disbursements and advances in any such proceedings shall be denied for any reason, payment of the same shall be secured by a lien on, and shall be paid out of, any and all distributions, dividends, money, securities and other property which the Holders may be entitled to receive in

such proceedings, whether in liquidation or under any plan of reorganization or arrangement or otherwise. Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to, or, on behalf of any Holder, to authorize, accept or adopt any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

SECTION 8.10. PRIORITIES.

If the Trustee collects any money pursuant to this Article 8, it shall pay out the money in the following order:

First, to the Trustee for amounts due under Section 9.7;

Second, to the holders of Senior Indebtedness to the extent required by Article 5;

Third, to Holders for amounts due and unpaid on the Securities for principal and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Securities for principal, premium, if any, (including Bonus Payment and Make-Whole Payment, if any) and interest, respectively; and

Fourth, to the Company.

The Trustee may fix a record date and payment date for any payment to Holders pursuant to this Section 8.10.

SECTION 8.11. UNDERTAKING FOR COSTS.

In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section 8.11 does not apply to a suit made by the Trustee, a suit by a Holder pursuant to Section 8.7, or a suit by Holders of more than 10% in principal amount of the Securities then outstanding.

ARTICLE 9 TRUSTEE

SECTION 9.1. DUTIES OF TRUSTEE.

(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture and use the same degree of care and skill in its exercise as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

(b) Except during the continuance of an Event of Default:

(1) the Trustee need perform only those duties as are specifically set forth in this Indenture and no others; and

(2) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture. The Trustee, however, shall examine any certificates and opinions which by any provision hereof are specifically required to be delivered to the Trustee to determine whether or not they conform to the requirements of this Indenture.

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(1) this paragraph does not limit the effect of subsection (b) of this Section 9.1;

(2) the Trustee shall not be liable for any error of judgment made in good faith by a Trust Officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts; and

(3) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 8.5.

(d) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers unless the Trustee shall have received adequate indemnity in its reasonable opinion against potential costs and liabilities incurred by it relating thereto.

(e) Every provision of this Indenture that in any way relates to the Trustee is subject to subsections (a), (b), (c) and (d) of this Section 9.1.

(f) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree in writing with the Company. Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

SECTION 9.2. RIGHTS OF TRUSTEE.

Subject to Section 9.1:

(a) The Trustee may rely conclusively on any document believed by it to be genuine and to have been signed or presented by the proper person. The Trustee need not investigate any fact or matter stated in the document.

(b) Before the Trustee acts or refrains from acting, it may require an Officers' Certificate or an Opinion of Counsel, which shall conform to Section 12.4(b). The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on such Certificate or Opinion.

(c) The Trustee may act through its agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers.

(e) The Trustee may consult with counsel of its selection, and the advice or opinion of such counsel as to matters of law shall be full and complete authorization and protection in respect of any such

action taken, omitted or suffered by it hereunder in good faith and in accordance with the advice or opinion of such counsel.

(f) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have offered to the Trustee security or indemnity satisfactory to the Trustee against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

(g) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney at the sole cost of the Company and shall incur no liability or additional liability of any kind by reason of such inquiry or investigation.

(h) The Trustee shall not be deemed to have notice of any Default or Event of Default unless a Trust Officer of the Trustee has actual knowledge thereof or unless written notice of any event which is in fact such a default is received by the Trustee at the Corporate Trust Office, and such notice references the Securities and this Indenture.

(i) The rights, privileges, protections, immunities and benefits given to the Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder, and to each agent, custodian and other Person employed to act hereunder.

SECTION 9.3. INDIVIDUAL RIGHTS OF TRUSTEE.

The Trustee in its individual or any other capacity may become the owner or pledgee of Securities and may otherwise deal with the Company or an Affiliate of the Company with the same rights it would have if it were not Trustee. Any Agent may do the same with like rights. However, the Trustee is subject to Sections 9.10 and 9.11.

SECTION 9.4. TRUSTEE'S DISCLAIMER.

The Trustee makes no representation as to the validity or adequacy of this Indenture or the Securities. The Trustee shall not be accountable for the Company's use of the proceeds from the Securities, nor shall it be responsible for any statement in the Securities other than its certificate of authentication.

SECTION 9.5. NOTICE OF DEFAULT OR EVENTS OF DEFAULT.

If a default or an Event of Default occurs and is continuing and if it is known to the Trustee, the Trustee shall mail to each Securityholder notice of the default or Event of Default within 90 days after it occurs. However, the Trustee may withhold the notice if and so long as a committee of its Trust Officers in good faith determines that withholding notice is in the interests of Securityholders, except in the case of a default or an Event of Default in payment of the principal of or interest on any Security.

SECTION 9.6. REPORTS BY TRUSTEE TO HOLDERS.

If such report is required by TIA Section 313 if the TIA were applicable, within 60 days after each May 15, beginning with the May 15 following the date of this Indenture, the Trustee shall mail to each Securityholder a brief report dated as of such May 15 that complies with TIA Section 313(a). The Trustee also shall comply with TIA Section 313(b)(2) and (c).

A copy of each report at the time of its mailing to Securityholders shall be mailed to the Company and filed with the SEC and each stock exchange, if any, on which the Securities are listed. The Company shall notify the Trustee whenever the Securities become listed on any stock exchange or listed or admitted to trading on any quotation system and any changes in the stock exchanges or quotation systems on which the Securities are listed or admitted to trading and of any delisting thereof.

SECTION 9.7. COMPENSATION AND INDEMNITY.

The Company shall pay to the Trustee from time to time such compensation (as agreed to from time to time by the Company and the Trustee in writing) for its services (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust). The Company shall reimburse the Trustee upon request for all reasonable disbursements, expenses and advances incurred or made by it. Such expenses may include the reasonable compensation, disbursements and expenses of the Trustee's agents and counsel.

The Company shall indemnify the Trustee or any predecessor Trustee (which for purposes of this Section 9.7 shall include its officers, directors, employees and agents) for, and hold it harmless against, any and all loss, liability or expense including taxes (other than taxes based upon, measured by or determined by the income of the Trustee), (including reasonable legal fees and expenses) incurred by it in connection with the acceptance or administration of its duties under this Indenture or any action or failure to act as authorized or within the discretion or rights or powers conferred upon the Trustee hereunder including the reasonable costs and expenses of the Trustee and its counsel in defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder. The Trustee shall notify the Company promptly of any claim asserted against the Trustee for which it may seek indemnity. The Company need not pay for any settlement without its written consent, which shall not be unreasonably withheld.

The Company need not reimburse the Trustee for any expense or indemnify it against any loss or liability incurred by it resulting from the Trustee's gross negligence or bad faith.

To secure the Company's payment obligations in this Section 9.7, the Trustee shall have a senior claim, to which the Securities are hereby made subordinate, on all money or property held or collected by the Trustee, except such money or property held in trust to pay the principal of and interest on the Securities. The obligations of the Company under this Section 9.7 shall survive the satisfaction and discharge of this Indenture or the resignation or removal of the Trustee.

When the Trustee incurs expenses or renders services after an Event of Default specified in clause (4) or (5) of Section 8.1 occurs, the expenses and the compensation for the services are intended to constitute expenses of administration under any Bankruptcy Law. The provisions of this Section shall survive the termination of this Indenture.

SECTION 9.8. REPLACEMENT OF TRUSTEE.

The Trustee may resign by so notifying the Company. The Holders of a majority in principal amount of the Securities then outstanding may remove the Trustee by so notifying the Trustee and the Company and may, with the Company's written consent, appoint a successor Trustee. The Company may remove the Trustee if:

- (1) the Trustee fails to comply with Section 9.10;
- (2) the Trustee is adjudged a bankrupt or an insolvent;
- (3) a receiver or other public officer takes charge of the Trustee or its property; or
- (4) the Trustee becomes incapable of acting.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Company shall promptly appoint a successor Trustee. The resignation or removal of a Trustee shall not be effective until a successor Trustee shall have delivered the written acceptance of its appointment as described below.

If a successor Trustee does not take office within 45 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Company or the Holders of 10% in principal amount of the Securities then outstanding may petition any court of competent jurisdiction for the appointment of a successor Trustee at the expense of the Company.

If the Trustee fails to comply with Section 9.10, any Holder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Immediately after that, the retiring Trustee shall transfer all property held by it as Trustee to the successor Trustee and be released from its obligations (exclusive of any liabilities that the retiring Trustee may have incurred while acting as Trustee) hereunder, the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. A successor Trustee shall mail notice of its succession to each Holder.

A retiring Trustee shall not be liable for the acts or omissions of any successor Trustee after its succession.

Notwithstanding replacement of the Trustee pursuant to this Section 9.8, the Company's obligations under Section 9.7 shall continue for the benefit of the retiring Trustee.

SECTION 9.9. SUCCESSOR TRUSTEE BY MERGER, ETC.

If the Trustee consolidates with, merges or converts into, or transfers all or substantially all of its corporate trust assets (including the administration of this Indenture) to, another corporation, the resulting, surviving or transferee corporation, without any further act, shall be the successor Trustee, provided such transferee corporation shall qualify and be eligible under Section 9.10. Such successor Trustee shall promptly mail notice of its succession to the Company and each Holder.

SECTION 9.10. ELIGIBILITY; DISQUALIFICATION.

The Trustee shall always satisfy the requirements of paragraphs (1), (2) and (5) of TIA Section 310(a). The Trustee (or its parent holding company) shall have a combined capital and surplus of at least \$50,000,000. If at any time the Trustee shall cease to satisfy any such requirements, it shall resign immediately in the manner and with the effect specified in this Article 9. The Trustee shall be subject to the provisions of TIA Section 310(b). Nothing herein shall prevent the Trustee from filing with the SEC the application referred to in the penultimate paragraph of TIA Section 310(b).

SECTION 9.11. PREFERENTIAL COLLECTION OF CLAIMS AGAINST COMPANY.

The Trustee shall comply with TIA Section 311(a), excluding any creditor relationship listed in TIA Section 311(b). A Trustee who has resigned or been removed shall be subject to TIA Section 311(a) to the extent indicated therein.

ARTICLE 10
SATISFACTION AND DISCHARGE OF INDENTURE

SECTION 10.1. SATISFACTION AND DISCHARGE OF INDENTURE.

This Indenture shall cease to be of further effect (except as to any surviving rights of conversion, registration of transfer or exchange of Securities herein expressly provided for and except as further provided below), and the Trustee, on demand of and at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when

(1) either

(A) all Securities theretofore authenticated and delivered (other than (i) Securities which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 2.7 and (ii) Securities for whose payment money has theretofore been deposited in trust and thereafter repaid to the Company as provided in Section 10.3) have been delivered to the Trustee for cancellation; or

(B) all such Securities not theretofore delivered to the Trustee for cancellation

(i) have become due and payable, or

(ii) will become due and payable at the Final Maturity Date within one year, or

(iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company,

and the Company, in the case of clause (i), (ii) or (iii) above, has irrevocably deposited or caused to be irrevocably deposited with the Trustee or a Paying Agent (other than the Company or any of its Affiliates) as trust funds in trust for the purpose cash in an amount sufficient to pay and discharge the entire indebtedness on such Securities not theretofore delivered to the Trustee for cancellation, for principal and interest to the date of such deposit (in the case of Securities which have become due and payable) or to the Final Maturity Date or Redemption Date, as the case may be;

(2) the Company has paid or caused to be paid all other sums payable hereunder by the Company; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 9.7 shall survive and, if money shall have been deposited with the Trustee pursuant to subclause (B) of clause (1) of this Section, the provisions of Sections 2.3, 2.4, 2.5, 2.6, 2.7, 2.12, 3.8, 3.9, 3.10, 3.11, 3.12, 3.13 and 12.5, Article 4, the last paragraph of Section 6.2 and this Article 10, shall survive until the Securities have been paid in full.

SECTION 10.2. APPLICATION OF TRUST MONEY.

Subject to the provisions of Section 10.3, the Trustee or a Paying Agent shall hold in trust, for the benefit of the Holders, all money deposited with it pursuant to Section 10.1 and shall apply the deposited money in accordance with this Indenture and the Securities to the payment of the principal of and interest on the Securities. Money so held in trust shall not be subject to the subordination provisions of Article 5.

SECTION 10.3. REPAYMENT TO COMPANY.

The Trustee and each Paying Agent shall promptly pay to the Company upon request any excess money (i) deposited with them pursuant to Section 10.1 and (ii) held by them at any time.

The Trustee and each Paying Agent shall pay to the Company upon request any money held by them for the payment of principal or interest that remains unclaimed for two years after a right to such money has matured; provided, however, that the Trustee or such Paying Agent, before being required to make any such payment, may at the expense of the Company cause to be mailed to each Holder entitled to such money notice that such money remains unclaimed and that after a date specified therein, which shall be at least 30 days from the date of such mailing, any unclaimed balance of such money then remaining will be repaid to the Company. After payment to the Company, Holders entitled to money must look to the Company for payment as general creditors.

SECTION 10.4. REINSTATEMENT.

If the Trustee or any Paying Agent is unable to apply any money in accordance with Section 10.2 by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the Company's obligations under this Indenture and the Securities shall be revived and reinstated as though no deposit had occurred pursuant to Section 10.1 until such time as the Trustee or such Paying Agent is permitted to apply all such money in accordance with Section 10.2; provided, however, that if the Company has made any payment of the principal of or interest on any Securities because of the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Securities to receive any such payment from the money held by the Trustee or such Paying Agent.

ARTICLE 11
AMENDMENTS, SUPPLEMENTS AND WAIVERS

SECTION 11.1. WITHOUT CONSENT OF HOLDERS.

The Company and the Trustee may amend or supplement this Indenture or the Securities without notice to or consent of any Securityholder: (a) to comply with Sections 4.11 and 7.1;

(b) to cure any ambiguity, defect or inconsistency;

(c) to make any other change that does not adversely effect the rights of any Securityholder;

(d) to comply with the provisions of the TIA; or

(e) to appoint a successor Trustee.

SECTION 11.2. WITH CONSENT OF HOLDERS.

The Company and the Trustee may amend or supplement this Indenture or the Securities with the written consent of the Holders of at least a majority in aggregate principal amount of the Securities then outstanding. The Holders of at least a majority in aggregate principal amount of the Securities then outstanding may waive compliance in a particular instance by the Company with any provision of this Indenture or the Securities without notice to any Securityholder. However, notwithstanding the foregoing but subject to Section 11.4, without the written consent of each Securityholder affected, an amendment, supplement or waiver, including a waiver pursuant to Section 8.4, may not:

(a) change the stated maturity of the principal of, or interest on, any Security;

(b) reduce the principal amount of, or any premium or interest on, any Security;

(c) reduce the amount of principal payable upon acceleration of the maturity of any Security;

(d) change in a manner adverse to Holders of Securities the Company's obligation to purchase any Security upon a Change in Control;

(e) change the place or currency of payment of principal of, or any premium or interest on, any Security;

(f) impair the right to institute suit for the enforcement of any payment on, or with respect to, any Security;

(g) change in a manner adverse to Holders of Securities the Company's obligation to purchase any Security pursuant to Article 13;

(h) modify the subordination provisions of Article 5 in a manner materially adverse to the Holders of Securities;

(i) adversely affect the right of Holders to convert Securities (or the terms upon which the Holders may do so) other than as provided in or under Section 4 of this Indenture;

(j) reduce the percentage of the aggregate principal amount of the outstanding Securities whose Holders must consent to a modification or amendment;

(k) reduce the percentage of the aggregate principal amount of the outstanding Securities necessary for the waiver of compliance with certain provisions of this Indenture or the waiver of certain defaults under this Indenture; and

(l) modify any of the provisions of this Section or Section 8.4, except to increase any such percentage or to provide that certain provisions of this Indenture cannot be modified or waived without the consent of the Holder of each outstanding Security affected thereby.

It shall not be necessary for the consent of the Holders under this Section 11.2 to approve the particular form of any proposed amendment, supplement or waiver, but it shall be sufficient if such consent approves the substance thereof.

After an amendment, supplement or waiver under this Section 11.2 becomes effective, the Company shall mail to the Holders affected thereby a notice briefly describing the amendment, supplement or waiver. Any failure of the Company to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such amendment, supplement or waiver. An amendment or supplement under this Section 11.2 or under Section 11.1 may not make any change that adversely affects the rights under Article 5 of any holder of an issue of Senior Indebtedness unless the holders of that issue, pursuant to its terms, consent to the change.

SECTION 11.3. COMPLIANCE WITH TRUST INDENTURE ACT.

Every amendment to or supplement of this Indenture or the Securities shall comply with the TIA as in effect at the date of such amendment or supplement.

SECTION 11.4. REVOCATION AND EFFECT OF CONSENTS.

Until an amendment, supplement or waiver becomes effective, a consent to it by a Holder is a continuing consent by the Holder and every subsequent Holder of a Security or portion of a Security that evidences the same debt as the consenting Holder's Security, even if notation of the consent is not made on any Security. However, any such Holder or subsequent Holder may revoke the consent as to its Security or portion of a Security if the Trustee receives the notice of revocation before the date the amendment, supplement or waiver becomes effective.

After an amendment, supplement or waiver becomes effective, it shall bind every Securityholder, unless it makes a change described in any of clauses (a) through (l) of Section 11.2. In that case the amendment, supplement or waiver shall bind each Holder of a Security who has consented to it and every subsequent Holder of a Security or portion of a Security that evidences the same debt as the consenting Holder's Security.

SECTION 11.5. NOTATION ON OR EXCHANGE OF SECURITIES.

If an amendment, supplement or waiver changes the terms of a Security, the Trustee may require the Holder of the Security to deliver it to the Trustee. The Trustee may place an appropriate notation on the Security about the changed terms and return it to the Holder. Alternatively, if the Company or the Trustee so determines, the Company in exchange for the Security shall issue and the Trustee shall authenticate a new Security that reflects the changed terms.

SECTION 11.6. TRUSTEE TO SIGN AMENDMENTS, ETC.

The Trustee shall sign any amendment or supplemental indenture authorized pursuant to this Article 11 if the amendment or supplemental indenture does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may, in its sole discretion, but need not sign it. In signing or refusing to sign such amendment or supplemental indenture, the Trustee shall be entitled to receive and, subject to Section 9.1, shall be fully protected in relying upon, an Opinion of Counsel stating that such amendment or supplemental indenture is authorized or permitted by this Indenture. The Company may not sign an amendment or supplement indenture until the Board of Directors approves it.

ARTICLE 12 MISCELLANEOUS

SECTION 12.1. TRUST INDENTURE ACT CONTROLS.

If any provision of this Indenture limits, qualifies or conflicts with the duties imposed by any of Sections 310 to 317, inclusive, of the TIA through operation of Section 318(c) thereof, such imposed duties shall control.

SECTION 12.2. NOTICES.

Any notice, request or communication shall be given in writing and delivered in person or mailed by first-class mail, postage prepaid, addressed as follows: If to the Company:

Cyras Systems, Inc.
47100 Bayside Parkway
Fremont, California 94538
Attention: General Counsel

If to the Trustee:
State Street Bank and Trust Company of California, N.A.
633 West 5th Street
12th Floor
Los Angeles, California, 90071
Attention: Corporate Trust Department (Cyras Systems, Inc. -
4 1/2% Convertible Subordinated Notes due August 15, 2005)

Such notices or communications shall be effective when received.

The Company or the Trustee by notice to the other may designate additional or different addresses for subsequent notices or communications.

Any notice or communication mailed to a Securityholder shall be mailed by first-class mail to it at its address shown on the register kept by the Primary Registrar.

Failure to mail a notice or communication to a Securityholder or any defect in it shall not affect its sufficiency with respect to other Securityholders. If a notice or communication to a Securityholder is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

SECTION 12.3. COMMUNICATIONS BY HOLDERS WITH OTHER HOLDERS.

Securityholders may communicate pursuant to TIA Section 312(b) with other Securityholders with respect to their rights under this Indenture or the Securities. The Company, the Trustee, the Registrar and any other person shall have the protection of TIA Section 312(c).

SECTION 12.4. CERTIFICATE AND OPINION AS TO CONDITIONS PRECEDENT.

(a) Upon any request or application by the Company to the Trustee to take any action under this Indenture, the Company shall furnish to the Trustee at the request of the Trustee:

(1) an Officers' Certificate stating that, in the opinion of the signers, all conditions precedent (including any covenants, compliance with which constitutes a condition precedent), if any, provided for in this Indenture relating to the proposed action have been complied with; and

(2) an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent (including any covenants, compliance with which constitutes a condition precedent) have been complied with.

(b) Each Officers' Certificate and Opinion of Counsel with respect to compliance with a condition or covenant provided for in this Indenture shall include:

(1) a statement that the person making such certificate or opinion has read such covenant or condition;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of such person, he or she has made such examination or investigation as is necessary to enable him or her to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether or not, in the opinion of such person, such condition or covenant has been complied with; provided, however, that with respect to matters of fact an Opinion of Counsel may rely on an Officers' Certificate or certificates of public officials.

SECTION 12.5. RECORD DATE FOR VOTE OR CONSENT OF SECURITYHOLDERS.

The Company (or, in the event deposits have been made pursuant to Section 10.1, the Trustee) may set a record date for purposes of determining the identity of Holders entitled to vote or consent to any action by vote or consent authorized or permitted under this Indenture, which record date shall not be more than

thirty (30) days prior to the date of the commencement of solicitation of such action. Notwithstanding the provisions of Section 11.4, if a record date is fixed, those persons who were Holders of Securities at the close of business on such record date (or their duly designated proxies), and only those persons, shall be entitled to take such action by vote or consent or to revoke any vote or consent previously given, whether or not such persons continue to be Holders after such record date.

SECTION 12.6. RULES BY TRUSTEE, PAYING AGENT, REGISTRAR AND CONVERSION AGENT.

The Trustee may make reasonable rules (not inconsistent with the terms of this Indenture) for action by or at a meeting of Holders. Any Registrar, Paying Agent or Conversion Agent may make reasonable rules for its functions.

SECTION 12.7. LEGAL HOLIDAYS.

A "Legal Holiday" is a Saturday, Sunday or a day on which state or federally chartered banking institutions in New York, New York and the state in which the Corporate Trust Office is located are not required to be open. If a payment date is a Legal Holiday, payment shall be made on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period. If a regular record date is a Legal Holiday, the record date shall not be affected.

SECTION 12.8. GOVERNING LAW.

This Indenture and the Securities shall be governed by, and construed in accordance with, the laws of the State of New York, without regard to principles of conflicts of laws.

SECTION 12.9. NO ADVERSE INTERPRETATION OF OTHER AGREEMENTS.

This Indenture may not be used to interpret another indenture, loan or debt agreement of the Company or a Subsidiary of the Company. Any such indenture, loan or debt agreement may not be used to interpret this Indenture.

SECTION 12.10. NO RECOURSE AGAINST OTHERS.

All liability described in paragraph 19 of the Securities of any director, officer, employee or shareholder, as such, of the Company is waived and released.

SECTION 12.11. SUCCESSORS.

All agreements of the Company in this Indenture and the Securities shall bind its successor. All agreements of the Trustee in this Indenture shall bind its successor.

SECTION 12.12. MULTIPLE COUNTERPARTS.

The parties may sign multiple counterparts of this Indenture. Each signed counterpart shall be deemed an original, but all of them together represent the same agreement.

SECTION 12.13. SEPARABILITY.

In case any provisions in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 12.14. TABLE OF CONTENTS, HEADINGS, ETC.

The table of contents, cross-reference sheet and headings of the Articles and Sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part hereof, and shall in no way modify or restrict any of the terms or provisions hereof.

ARTICLE 13
 REPURCHASE OF SECURITIES AT THE OPTION OF THE HOLDER
 IF NO COMPLYING PUBLIC EQUITY OFFERING

SECTION 13.1. RIGHT TO REQUIRE REPURCHASE.

If a Complying Public Equity Offering has not occurred on or prior to March 31, 2002 (the "Repurchase Trigger Date"), the Company shall be obligated to make an offer to purchase (a "Repurchase Offer") all of the outstanding Securities at 118.942 % of the principal balance thereof (the "Repurchase Price"), on April 30, 2002 (the "Repurchase Date") or if such date is not a Business Day, the next succeeding Business Day.

Whenever in this Indenture there is a reference, in any context, to the principal of any Security as of any time, such reference shall be deemed to include reference to the Repurchase Price payable in respect of such Security to the extent that such Repurchase Price is, was or would be so payable at such time, and express mention of the Repurchase Price in any provision of this Indenture shall not be construed as excluding the Repurchase Price in those provisions of this Indenture when such express mention is not made.

SECTION 13.2. NOTICES; METHOD OF EXERCISING REPURCHASE RIGHT, ETC.

(a) If a Complying Public Equity Offering has not occurred on or prior to the Repurchase Trigger Date, unless all of the outstanding Securities have been converted, on or prior to the Repurchase Date, the Company or the Trustee, at the request of the Company, shall give to all Holders of Securities, in the manner provided in Section 12.2, notice of the failure of the Company to consummate a Complying Public Equity Offering and of the repurchase right set forth herein arising as a result thereof. The Company shall also deliver a copy of such notice of a repurchase right to the Trustee, and the Trustee, if so requested by the Company, shall give such notice to the Holders.

Each notice of a repurchase right shall state:

(1) the Repurchase Date,

(2) the Repurchase Price,

(3) a description of the procedure which a Holder must follow to exercise a repurchase right, and the place or places where such Securities are to be surrendered for payment of the Repurchase Price,

(4) that on the Repurchase Date the Repurchase Price will become due and payable upon each such Security designated by the Holder to be repurchased, and that interest thereon shall cease to accrue on and after such Repurchase Date.

No failure of the Company to give the foregoing notices or defect therein shall limit any Holder's right to exercise a repurchase right or affect the validity of the proceedings for the repurchase of Securities.

If any of the foregoing provisions or other provisions of this Article are inconsistent with applicable law, such law shall govern.

(b) To exercise a repurchase right, a Holder shall deliver to the Trustee or any Paying Agent on or prior to the close of business on the Business Day prior to the Repurchase Date (i) written notice of the Holder's exercise of such right, which notice shall set forth the name of the Holder, the principal amount of the Securities to be repurchased (and, if any Security is to be repurchased in part, the serial number thereof, the portion of the principal amount thereof to be repurchased and the name of the Person in which the portion thereof to remain outstanding after such repurchase is to be registered) and a statement that an election to exercise the repurchase right is being made thereby, and (ii) the Securities with respect to which the repurchase right is being exercised. Such written notice shall be irrevocable.

(c) In the event a repurchase right shall be exercised in accordance with the terms hereof, the Company shall, on or prior to the Repurchase Date, pay or cause to be paid to the Trustee or the Paying Agent the Repurchase Price in cash, as provided above, for payment to the Holder on the Repurchase Date payable with respect to the Securities as to which their purchase right has been exercised; provided, however, that installments of interest that mature prior to the Repurchase Date shall be payable in cash, in the case of Securities, to the Holders of such Securities registered as such at the close of business on the relevant regular record date.

(d) If any Security (or portion thereof) surrendered for repurchase shall not be so paid on the Repurchase Date, the principal of such Security (or portion thereof, as the case may be) shall, until paid, bear interest to the extent permitted by applicable law from the Repurchase Date at the rate of 4 1/2% per annum together with any Additional Interest that the Company may be required to pay, and each Security shall remain convertible into Common Stock until the principal of such Security (or portion thereof, as the case may be) shall have been paid or duly provided for.

(e) Any Security which is to be repurchased only in part shall be surrendered to the Trustee (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and make available for delivery to the Holder of such Security without service charge, a new Security or Securities, containing identical terms and conditions, each in an authorized denomination in aggregate principal amount equal to and in exchange for the unrepurchased portion of the principal of the Security so surrendered.

(f) All Securities delivered for repurchase shall be delivered to the Trustee, the Paying Agent or any other agents (as shall be set forth in the Company Notice) to be canceled by or at the direction of the Trustee, which shall dispose of the same as provided in Section 2.11.

ARTICLE 14
MEETINGS OF HOLDERS

SECTION 14.1. PURPOSE OF MEETINGS.

A meeting of Holders may be, but need not be, called at any time and from time to time pursuant to the provisions of this Article 14 for any of the following purposes:

- (1) to give any notice to the Company or to the Trustee or to give any directions to the Trustee permitted under this Indenture, or to consent to the waiving of any default or Event of Default hereunder and its consequences;
- (2) to remove the Trustee and nominate a successor trustee pursuant to the provisions of Article 9;
- (3) to consent to the execution of an indenture or indentures supplemental hereto pursuant to the provisions of Section 11.2; or
- (4) to take any other action authorized to be taken by or on behalf of the holders of any specified aggregate principal amount of the Securities under any other provision of this Indenture or under applicable law.

SECTION 14.2. CALL OF MEETINGS BY TRUSTEE.

Except as provided in Section 14.3 the Trustee may, but shall be under no obligation to, at any time call a meeting of Holders to take any action specified in Section 14.1, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Holders, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting and the establishment of any record date shall be mailed to holder of Securities at their addresses as they shall appear on the register. Such notice shall also be mailed to the Company. Such notices shall be mailed not less than twenty (20) nor more than ninety (90) days prior to the date fixed for the meeting.

Any meeting of Holders shall be valid without notice if the holders of all Securities then outstanding are present in person or by proxy or if notice is waived before or after the meeting by the holders of all Securities outstanding, and if the Company and the Trustee are either present by duly authorized representatives or have, before or after the meeting, waived notice.

SECTION 14.3. CALL OF MEETINGS BY COMPANY OR HOLDERS.

In case at any time the Company, pursuant to a resolution of its Board of Directors, or the holders of at least ten percent (10%) in aggregate principal amount of the Securities then outstanding, shall have requested the Trustee to call a meeting of Holders, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Trustee shall not have mailed the notice of such meeting within twenty (20) days after receipt of such request, then the Company or such Holders may determine the time and the place for such meeting and may call such meeting to take any action authorized in Section 14.1 by mailing notice thereof as provided in Section 14.2.

SECTION 14.4. QUALIFICATIONS FOR VOTING.

To be entitled to vote at any meeting of Holders a person shall (a) be a holder of one or more Securities on the record date pertaining to such meeting or (b) be a person appointed by an instrument in writing as proxy by a holder of one or more Securities on the record date pertaining to such meeting. The only persons who shall be entitled to be present or to speak at any meeting of Holders shall be the persons entitled to vote at such meeting and their counsel and any representatives of the Trustee and its counsel and any representatives of the Company and its counsel.

SECTION 14.5. REGULATIONS.

Notwithstanding any other provisions of this Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of Holders, in regard to proof of the holding of Securities and of the appointment of proxies, and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall think fit.

The Trustee shall, by an instrument in writing, appoint a temporary chairman of the meeting, unless the meeting shall have been called by the Company or Holders as provided in Section 14.3, in which case the Company or the Holders calling the meeting, as the case may be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by vote of the holders of a majority in principal amount of the Securities represented at the meeting and entitled to vote at the meeting.

At any meeting each Holder or proxyholder shall be entitled to one vote for each \$1, 000 principal amount of Securities held or represented by him; provided, however, that no vote shall be cast or counted at any meeting in respect of any Security challenged as not outstanding and ruled by the chairman of the meeting to be not outstanding. The chairman of the meeting shall have no right to vote other than by virtue of Securities held by him or instruments in writing as aforesaid duly designating him as the proxy to vote on behalf of other Holders. Any meeting of Holders duly called pursuant to the provisions of Section 14.2 or 14.3 may be adjourned from time to time by the holders of a majority of the aggregate principal amount of Securities represented at the meeting, whether or not constituting a quorum, and the meeting may be held as so adjourned without further notice.

SECTION 14.6. VOTING.

The vote upon any resolution submitted to any meeting of Holders shall be by written ballot on which shall be subscribed the signatures of the holders of Securities or of their representatives by proxy and the outstanding principal amount of the Securities held or represented by them. The permanent chairman of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports in duplicate of all votes cast at the meeting. A record in duplicate of the proceedings of each meeting of Holders shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the inspectors of votes on any vote by ballot taken thereat and affidavits by one or more persons having knowledge of the facts setting forth a copy of the notice of the meeting and showing that said notice was mailed as provided in Section 14.2 or 14.3. The record shall show the principal amount of the Securities voting in favor of or against any resolution. The record shall be signed and verified by the affidavits of the permanent chairman and secretary of the meeting and one of the duplicates shall be delivered to the Company and the other to the Trustee to be preserved by the Trustee, the latter to have attached thereto the ballots voted at the meeting.

Any record so signed and verified shall be conclusive evidence of the matters therein stated.

SECTION 14.7. NO DELAY OF RIGHTS BY MEETING

Nothing contained in this Article 14 shall be deemed or construed to authorize or permit, by reason of any call of a meeting of Holders or any rights expressly or impliedly conferred hereunder to make such call, any hindrance or delay in the exercise of any right or rights conferred upon or reserved to the Trustee or to the Holders under any of the provisions of this Indenture or of the Securities.

SIGNATURE PAGE FOLLOWS

IN WITNESS WHEREOF, the parties hereto have hereunto set their hands as of the date and year first above written.

CYRAS SYSTEMS, INC.

By: /s/ SHEKHAR MANDAL

Name: Shekhar Mandal
Title: Vice President for Finance and Administration,
and Chief Financial Officer

STATE STREET BANK AND TRUST COMPANY
OF CALIFORNIA, N.A., AS TRUSTEE

By: /s/ STEPHEN RIVERO

Name: Stephen Rivero
Title: Vice President

EXHIBIT A
[FORM OF FACE OF SECURITY]

[UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN. THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE THEREOF. THIS SECURITY IS EXCHANGEABLE FOR SECURITIES REGISTERED IN THE NAME OF A PERSON OTHER THAN THE DEPOSITARY OR ITS NOMINEE ONLY IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE AND, UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR SECURITIES IN DEFINITIVE FORM, THIS SECURITY MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY OR BY THE DEPOSITARY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITARY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITARY.](1)

[THIS SECURITY (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), AND THIS SECURITY AND THE SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION THEREOF MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS SECURITY IS HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.](2)

THE HOLDER OF THIS SECURITY AGREES FOR THE BENEFIT OF THE COMPANY THAT (A) THIS SECURITY AND THE SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION THEREOF MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (II) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144

- - - - -
- (1) This paragraph should be included only if the Security is a global Security.
- (2) This paragraph to be included only if the Security is a Transfer Restricted Security.

THEREUNDER (IF AVAILABLE) OR (III) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (I) THROUGH (III) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.](2)

[THE HOLDER OF THIS SECURITY IS ENTITLED TO THE BENEFITS OF A REGISTRATION RIGHTS AGREEMENT (AS SUCH TERM IS DEFINED IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF) AND, BY ITS ACCEPTANCE HEREOF, AGREES TO BE BOUND BY AND TO COMPLY WITH THE PROVISIONS OF SUCH REGISTRATION RIGHTS AGREEMENT.](2)

(2) This paragraph to be included only if the Security is a Transfer Restricted Security.

CYRAS SYSTEMS, INC.

CUSIP:

R-_____

4 1/2% CONVERTIBLE SUBORDINATED NOTES DUE AUGUST 15, 2005

Cyras Systems, Inc., a California corporation (the "Company"), which terms shall include any successor corporation under the Indenture referred to on the reverse hereof), promises to pay to Cede & Co., or registered assigns, the principal sum of _____ Dollars (\$_____) on August 15, 2005 [or such greater or lesser amount as is indicated on the Schedule of Exchanges of Notes on the other side of this Note].³

Interest Payment Dates: February 15 and August 15

Record Dates: February 1 and August 1

This Note is convertible as specified on the other side of this Note. Additional provisions of this Note are set forth on the other side of this Note.

SIGNATURE PAGE FOLLOWS

 (3) This phrase should be included only if the Security is a global Security.

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IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

CYRAS SYSTEMS, INC.

By: _____
Name:
Title:

Attest:

Name:
Title:

Dated:

Trustee's Certificate of Authentication: This is one of the Securities referred to in the within-mentioned Indenture.

STATE STREET BANK AND TRUST COMPANY OF CALIFORNIA, N.A.,
as Trustee

Authorized Signatory

By:

[FORM OF REVERSE SIDE OF SECURITY]

CYRAS SYSTEMS, INC.

4 1/2% CONVERTIBLE SUBORDINATED NOTES DUE AUGUST 15, 2005

1. INTEREST

Cyras Systems, Inc., a California corporation (the "Company", which terms shall include any successor corporation under the Indenture hereinafter referred to), promises to pay interest on the principal amount of this Note at the rate of 4 1/2% per annum. The Company shall pay interest semiannually on February 15 and August 15 of each year, commencing February 15, 2001. Interest on the Notes shall accrue from the most recent date to which interest has been paid or, if no interest has been paid, from August 18, 2000; provided, however, that if there is not an existing default in the payment of interest and if this Note is authenticated between a record date referred to on the face hereof and the next succeeding interest payment date, interest shall accrue from such interest payment date. Interest will be computed on the basis of a 360-day year of twelve 30-day months. Any reference herein to interest accrued or payable as of any date shall include any Additional Interest accrued or payable on such date as provided in the Registration Rights Agreement.

2. METHOD OF PAYMENT

The Company shall pay interest on this Note (except defaulted interest) to the person who is the Holder of this Note at the close of business on February 1 or August 1, as the case may be, next preceding the related interest payment date. The Holder must surrender this Note to a Paying Agent to collect payment of principal. The Company will pay principal and interest in money of the United States that at the time of payment is legal tender for payment of public and private debts. The Company may, however, pay principal and interest in respect of any Certificated Security by check or wire payable in such money; provided, however, that a Holder with an aggregate principal amount of \$2,000,000 or more may be paid by wire transfer in immediately available funds at the election of such Holder. The Company may mail an interest check to the Holder's registered address. Notwithstanding the foregoing, so long as this Note is registered in the name of a Depository or its nominee, all payments hereon shall be made by wire transfer of immediately available funds to the account of the Depository or its nominee.

3. PAYING AGENT, REGISTRAR AND CONVERSION AGENT

Initially, State Street Bank and Trust Company of California, N.A. (the "Trustee", which term shall include any successor trustee under the Indenture hereinafter referred to) will act as Paying Agent, Registrar and Conversion Agent. The Company may change any Paying Agent, Registrar or Conversion Agent without notice to the Holder. The Company or any of its Subsidiaries may, subject to certain limitations set forth in the Indenture, act as Paying Agent or Registrar.

4. INDENTURE, LIMITATIONS

This Note is one of a duly authorized issue of Securities of the Company designated as its 4 1/2% Convertible Subordinated Notes due August 15, 2005 (the "Notes"), issued under an Indenture dated as of August 18, 2000 (together with any supplemental indentures thereto, the "Indenture"), between the Company and the Trustee. The terms of this Note include those stated in the Indenture and those required by or made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended, as in effect on the date of

the Indenture. This Note is subject to all such terms, and the Holder of this Note is referred to the Indenture and said Act for a statement of them.

The Notes are subordinated unsecured obligations of the Company limited to \$150,000,000 aggregate principal amount, subject to Section 2.2 of the Indenture. The Indenture does not limit other debt of the Company, secured or unsecured, including Senior Indebtedness.

5. OPTIONAL REDEMPTION

The Notes may be redeemed at the election of the Company, as a whole or from time to time in part, at any time on or after the 95th day following a Complying Public Equity Offering and prior to the second anniversary of a Complying Public Equity Offering (a "Provisional Redemption"), at a Redemption Price equal to \$1,000 per \$1,000 principal amount of the Securities plus accrued and unpaid interest (including Additional Interest), if any, (such amount, together with the Make-Whole Payment described below, the "Provisional Redemption Price"), to, but excluding, the date of redemption (the "Provisional Redemption Date") if (i) the Closing Price of the Company's Common Stock has exceeded 150% of the Conversion Price then in effect for at least 20 Trading Days in any period of 30 consecutive Trading Days ending on the Trading Day prior to the date of mailing of the provisional notice of redemption pursuant to Section 3.3 (the "Notice Date"), and (ii) a registration statement covering resales of the Notes and Common Stock issuable upon the conversion thereof is effective and available for use and is expected to remain effective for the 30 days following the Provisional Redemption Date unless registration is no longer required.

Upon any such Provisional Redemption, the Company shall make an additional payment (the "Make-Whole Payment") in cash or in Common Stock (as determined in the Indenture), to holders of the Notes called for redemption, including those Securities converted into Common Stock between the Notice Date and the Provisional Redemption Date, in an amount equal to the interest per \$1,000 principal amount of a Note from the Issue Date to the second anniversary of a Complying Public Equity Offering, less the amount of any interest actually paid on the Notes, and interest accrued and unpaid that will be paid in respect of the Notes, before the Provisional Redemption Date.

At any time on or after the second anniversary of a Complying Public Equity Offering, the Notes are subject to redemption at the option of the Company upon not less than 20 days' nor more than 60 days' notice by mail, as a whole or from time to time in part. The redemption prices (expressed as percentages of the principal amount) shall be as set forth below for Notes redeemed during the following periods beginning August 15 described below:

Period	Redemption Price
-----	-----
2002.....	102.250%
2003.....	101.125

and 100% of the principal amount on August 15, 2004, and at all times thereafter, together, in the case of any such redemption, with accrued interest to, but excluding, the Redemption Date (subject to the right of holders of record on the regular record date to receive interest on the related interest payment date). Any redemption of Notes must be in integral multiples of \$1,000.

If fewer than all of the Notes are to be redeemed, the Trustee shall select the Notes to be redeemed in principal amounts at maturity of \$1,000 or integral multiples thereof by lot, pro rata or by another method the Trustee considers fair and appropriate. If a portion of a Holder's Notes is selected for partial redemption and

that holder converts a portion of those Notes prior to the redemption, the converted portion shall be deemed, solely for purposes of determining the aggregate principal amount of the Notes to be redeemed by the Company, to be of the portion selected for redemption.

6. NOTICE OF REDEMPTION

Notice of redemption will be mailed by first-class mail at least 20 days but not more than 60 days before the Redemption Date to each Holder of Notes to be redeemed at its registered address. Notes in denominations larger than \$1,000 may be redeemed in part, but only in whole multiples of \$1,000. On and after the Redemption Date, subject to the deposit with the Paying Agent of funds sufficient to pay the Redemption Price, interest shall cease to accrue on Notes or portions of them called for redemption.

7. PURCHASE OF NOTES AT OPTION OF HOLDER UPON A CHANGE IN CONTROL

At the option of the Holder and subject to the terms and conditions of the Indenture, the Company shall become obligated to purchase all or any part specified by the Holder (so long as the principal amount of such part is \$1,000 or an integral multiple of \$1,000 in excess thereof) of the Notes held by such Holder on the date that is 30 Business Days after the occurrence of a Change in Control in an amount equal to the Change in Control Purchase Price (as defined in the Indenture). The Holder shall have the right to withdraw any Change in Control Purchase Notice (in whole or in a portion thereof that is \$1,000 or an integral multiple of \$1,000 in excess thereof) at any time prior to the close of business on the Business Day next preceding the Change in Control Purchase Date by delivering a written notice of withdrawal to the Paying Agent in accordance with the terms of the Indenture.

8. CONVERSION

Except as set forth in the Indenture, the Notes will not be convertible prior to the 90th day following a Complying Public Equity Offering. On or after the 90th day following a Complying Public Equity Offering, a Holder of a Note may convert the principal amount of such Note (or any portion thereof equal to \$1,000 or any integral multiple of \$1,000 in excess thereof) into shares of Common Stock at any time prior to maturity; provided, however, that if the Note is called for redemption or subject to purchase upon a Change in Control, the conversion right will terminate at the close of business on the Business Day immediately preceding the Redemption Date or the Change in Control Purchase Date, as the case may be, for such Note or such earlier date as the Holder presents such Note for redemption or purchase (unless the Company shall default in making the redemption payment or Change in Control Purchase Price, as the case may be, when due, in which case the conversion right shall terminate at the close of business on the date such default is cured and such Note is redeemed or purchased).

The initial Conversion Price per share will be determined as follows, subject to adjustment under certain circumstances as set forth in Section 4.6 of the Indenture.

(i) if the average of the Closing Prices for the Company's Common Stock during the 20 Trading Day period commencing on the first Trading Day following a Complying Public Equity Offering is less than or equal to 200% of the Initial Public Offering Price, the Conversion Price will equal 110% of the Initial Public Offering Price;

(ii) if the average of the Closing Prices for the Company's Common Stock during the 20 Trading Day period commencing on the first Trading Day following a Complying Public Equity

Offering is greater than 200% of the Initial Public Offering Price and less than or equal to 300% of the Initial Public Offering Price, the Conversion Price will equal 130% of the Initial Public Offering Price; and

(iii) if the average of the Closing Prices for the Company's Common Stock during the 20 Trading Day period commencing on the first Trading Day following a Complying Public Equity Offering is greater than 300% of the Initial Public Offering Price, the Conversion Price will equal 150% of the Initial Public Offering Price.

The number of shares of Common Stock issuable upon conversion of a Note is determined by dividing the principal amount of the Note or portion thereof converted by the Conversion Price in effect on the Conversion Date. No fractional shares will be issued upon conversion; in lieu thereof, an amount will be paid in cash in accordance with Section 4.3 of the Indenture.

During the period beginning on the 90th day following a Complying Public Equity Offering and prior to the second anniversary of a Complying Public Equity Offering (the "Bonus Conversion Period"), any Holder that elects to convert their Notes will be entitled to receive, along with the shares of Common Stock otherwise issuable upon conversion, a payment (the "Bonus Payment") equal to the amount of accrued interest per \$1,000 note from the Issue Date of the Notes to the second anniversary date of a Complying Public Equity Offering, less the amount of interest actually paid and interest accrued and unpaid that will be paid in respect of the notes being converted on the next interest payment date if the Conversion Date falls after a record date for the payment of interest and prior to an interest payment date; provided that the Bonus Payment will only be payable if:

(i) The Holder converts his other Notes on the fifth Trading Day of a calendar month during the Bonus Conversion Period; and

(ii) The average of the Closing Prices of the Common Stock during the last five Trading Days of the calendar month immediately preceding that Conversion Date has exceeded the Initial Public Offering Price.

The Company may elect to make the Bonus Payment in cash or shares of Common Stock. Payments made in Common Stock will be valued at 95% of the average of the Closing Prices of the Common Stock during the period referred to in (ii) above. The Company will provide a notice to Holders of Securities at least 15 days prior to the date that a Bonus Payment might become due in the subsequent calendar month, stating whether the Bonus Payment, if payable, would be in cash or Common Stock and stating that any Holder that elects to convert their Notes on the fifth Trading Day of a calendar month during the Bonus Conversion Period must provide the Company written notice of such election to convert their Notes at least one Trading Day prior to the fifth Trading Day.

If a Bonus Payment is made upon the conversion of a Note, no Make-Whole Payment will be made with respect to the conversion of such Note.

To convert a Note, a Holder must (a) complete and manually sign the conversion notice set forth below and deliver such notice to a Conversion Agent, (b) surrender the Note to a Conversion Agent, (c) furnish appropriate endorsements and transfer documents if required by a Registrar or a Conversion Agent, and (d) pay any transfer or similar tax, if required. Notes so surrendered for conversion (in whole or in part) during the period from the close of business on any regular record date to the opening of business on the next succeeding interest payment date (excluding Notes converted in full on the first Trading Day of any

month in the Bonus Conversion Period and Notes or portions thereof called for redemption or subject to purchase upon a Change in Control on a Redemption Date or Change in Control Purchase Date, as the case may be, during the period beginning at the close of business on a regular record date and ending at the opening of business on the first Business Day after the next succeeding interest payment date, or if such interest payment date is not a Business Day, the second such Business Day) shall also be accompanied by payment of an amount equal to the interest payable on such interest payment date on the principal amount of such Note then being converted, and such interest shall be payable to such registered Holder notwithstanding the conversion of such Note, subject to the provisions of this Indenture relating to the payment of defaulted interest by the Company. If the Company defaults in the payment of interest payable on such interest payment date, the Company shall promptly repay such funds to such Holder. A Holder may convert a portion of a Note equal to \$1,000 or any integral multiple thereof.

A Note in respect of which a Holder had delivered a Change in Control Purchase Notice exercising the option of such Holder to require the Company to purchase such Note may be converted only if the Change in Control Purchase Notice is withdrawn in accordance with the terms of the Indenture.

9. CONVERSION ARRANGEMENT ON CALL FOR REDEMPTION

Any Notes called for redemption, unless surrendered for conversion before the close of business on the Business Day immediately preceding the Redemption Date, may be deemed to be purchased from the Holders of such Notes at an amount not less than the Redemption Price by one or more investment bankers or other purchasers who may agree with the Company to purchase such Notes from the Holders, to convert them into Common Stock of the Company and to make payment for such Notes to the Paying Agent in trust for such Holders.

10. SUBORDINATION

The indebtedness evidenced by the Notes is, to the extent and in the manner provided in the Indenture, subordinate and junior in right of payment to the prior payment in full of all Senior Indebtedness of the Company. Any Holder by accepting this Note agrees to and shall be bound by such subordination provisions and authorizes the Trustee to give them effect. In addition to all other rights of Senior Indebtedness described in the Indenture, the Senior Indebtedness shall continue to be Senior Indebtedness and entitled to the benefits of the subordination provisions irrespective of any amendment, modification or waiver of any terms of any instrument relating to the Senior Indebtedness or any extension or renewal of the Senior Indebtedness.

11. REPURCHASE OF NOTES AT THE OPTION OF A HOLDER IF A COMPLYING PUBLIC EQUITY OFFERING HAS NOT OCCURRED ON OR BEFORE MARCH 31, 2002

If a Complying Public Equity Offering has not occurred on or before March 31, 2002, the Company will make an offer to the Holders to repurchase the Notes at 118.942% of the principal balance thereof (the "Repurchase Price") on April 30, 2002 (the "Repurchase Date"), or if such date is not a Business Day, the next succeeding Business Day, in the manner and in accordance with the provisions of Article 13 of the Indenture.

12. DENOMINATIONS, TRANSFER, EXCHANGE

The Notes are in registered form without coupons in denominations of \$1,000 and integral multiples of \$1,000. A Holder may register the transfer, or exchange, of Notes in accordance with the Indenture. The Registrar may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes or other governmental charges that may be imposed in relation thereto by law or permitted by the Indenture.

13. PERSONS DEEMED OWNERS

The Holder of a Note may be treated as the owner of it for all purposes.

14. UNCLAIMED MONEY

If money for the payment of principal or interest remains unclaimed for two years, the Trustee or Paying Agent will pay the money back to the Company at its written request. After that, Holders entitled to money must look to the Company for payment.

15. AMENDMENT, SUPPLEMENT AND WAIVER

Subject to certain exceptions, the Indenture or the Notes may be amended or supplemented with the consent of the Holders of at least a majority in principal amount of the Notes then outstanding, and an existing default or Event of Default and its consequence or compliance with any provision of the Indenture or the Notes may be waived in a particular instance with the consent of the Holders of a majority in principal amount of the Notes then outstanding. Without the consent of or notice to any Holder, the Company and the Trustee may amend or supplement the Indenture or the Notes to, among other things, cure any ambiguity, defect or inconsistency or make any other change that does not adversely affect the rights of any Holder.

16. SUCCESSOR CORPORATION

When a successor corporation assumes all the obligations of its predecessor under the Notes and the Indenture in accordance with the terms and conditions of the Indenture, the predecessor corporation will (except in certain circumstances specified in the Indenture) be released from those obligations.

17. DEFAULTS AND REMEDIES

Under the Indenture, an Event of Default includes: (i) default for 30 days in payment of any interest on any Notes; (ii) default in payment of any principal (including, without limitation, any premium, if any) on the Notes when due; (iii) failure by the Company for 60 days after notice to it to comply with any of its other agreements contained in the Indenture or the Notes; and (iv) certain events of bankruptcy, insolvency or reorganization of the Company. If an Event of Default (other than as a result of certain events of bankruptcy, insolvency or reorganization of the Company) occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the Notes then outstanding may declare all unpaid principal to the date of acceleration on the Notes then outstanding to be due and payable immediately, all as and to the extent provided in the Indenture. Any such declaration may be rescinded by the Holders of a majority in aggregate principal amount of the Notes then outstanding. If an Event of Default occurs as a result of certain events of bankruptcy, insolvency or reorganization of the Company, unpaid principal of the Notes then outstanding shall become due and payable immediately without any declaration or other act on the part of the Trustee or any Holder, all as and to the extent provided in the Indenture. Holders may not enforce the Indenture or the

Notes except as provided in the Indenture. The Trustee may require indemnity satisfactory to it before it enforces the Indenture or the Notes. Subject to certain limitations, Holders of a majority in principal amount of the Notes then outstanding may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Holders notice of any continuing default (except a default in payment of principal or interest) if it determines that withholding notice is in their interests. The Company is required to file periodic reports with the Trustee as to the absence of default.

18. TRUSTEE DEALINGS WITH THE COMPANY

State Street Bank and Trust Company of California, N.A., the Trustee under the Indenture, in its individual or any other capacity, may make loans to, accept deposits from and perform services for the Company or an Affiliate of the Company, and may otherwise deal with the Company or an Affiliate of the Company, as if it were not the Trustee.

19. NO RECOURSE AGAINST OTHERS

A director, officer, employee or shareholder, as such, of the Company shall not have any liability for any obligations of the Company under the Notes or the Indenture nor for any claim based on, in respect of or by reason of such obligations or their creation. The Holder of this Note by accepting this Note waives and releases all such liability. The waiver and release are part of the consideration for the issuance of this Note.

20. AUTHENTICATION

This Note shall not be valid until the Trustee or an authenticating agent manually signs the certificate of authentication on the other side of this Note.

21. ABBREVIATIONS AND DEFINITIONS

Customary abbreviations may be used in the name of the Holder or an assignee, such as: TEN COM (= tenants in common), TEN ENT (= tenants by the entirety), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= Custodian) and UGMA (= Uniform Gifts to Minors Act).

All terms defined in the Indenture and used in this Note but not specifically defined herein are defined in the Indenture and are used herein as so defined.

22. INDENTURE TO CONTROL; GOVERNING LAW

In the case of any conflict between the provisions of this Note and the Indenture, the provisions of the Indenture shall control. This Note shall be governed by, and construed in accordance with, the laws of the State of New York, without regard to principals of conflicts of law.

The Company will furnish to any Holder, upon written request and without charge, a copy of the Indenture. Requests may be made to: Cyrus Systems, Inc., 47100 Bayside Parkway, Fremont, California 94538, Attention: General Counsel.

ASSIGNMENT FORM

To assign this Note, fill in the form below:

I or we assign and transfer this Note to

(Insert assignee's soc. sec. or tax I.D. no.)

(Print or type assignee's name, address and zip code)

and irrevocably appoint

agent to transfer this Note on the books of the Company. The agent may
substitute another to act for him or her.

Your Signature:

Date:

(Sign exactly as your name
appears on the other side of
this Note)

*Signature guaranteed by:

By: -----

* The signature must be guaranteed by an institution which is a member of one of the following recognized signature guaranty programs: (i) the Securities Transfer Agent Medallion Program (STAMP); (ii) the New York Stock Exchange Medallion Program (MSP); (iii) the Stock Exchange Medallion Program (SEMP); or (iv) such other guaranty program acceptable to the Trustee.

CONVERSION NOTICE

To convert this Note into Common Stock of the Company, check the box: []

To convert only part of this Note, state the principal amount to be converted (must be \$1,000 or a multiple of \$1,000): \$_____.

If you want the stock certificate made out in another person's name, fill in the form below:

(Insert assignee's soc. sec. or tax I.D. no.)

(Print or type assignee's name, address and zip code)

Your Signature:

Date: _____

(Sign exactly as your name appears on the other side of this Note)

*Signature guaranteed by:

By: _____

* The signature must be guaranteed by an institution which is a member of one of the following recognized signature guaranty programs: (i) the Securities Transfer Agent Medallion Program (STAMP); (ii) the New York Stock Exchange Medallion Program (MSP); (iii) the Stock Exchange Medallion Program (SEMP); or (iv) such other guaranty program acceptable to the Trustee.

OPTION TO ELECT REPURCHASE
UPON A CHANGE OF CONTROL

To: Cyras Systems, Inc.

The undersigned registered owner of this Security hereby irrevocably acknowledges receipt of a notice from Cyras Systems, Inc. (the "Company") as to the occurrence of a Change in Control with respect to the Company and requests and instructs the Company to redeem the entire principal amount of this Security, or the portion thereof (which is \$1,000 or an integral multiple thereof) below designated, in accordance with the terms of the Indenture referred to in this Security at the Change in Control Purchase Price, together with accrued interest to, but excluding, such date, to the registered Holder hereof.

Dated: -----

Signature(s)

Signature(s) must be guaranteed by a qualified guarantor institution with membership in an approved signature guarantee program pursuant to Rule 17Ad-15 under the Securities Exchange Act of 1934.

Signature Guaranty

Principal amount to be redeemed
(in an integral multiple of \$1,000, if less than all):

NOTICE: The signature to the foregoing Election must correspond to the Name as written upon the face of this Security in every particular, without alteration or any change whatsoever.

ELECTION OF HOLDER TO REQUIRE REPURCHASE ON A REPURCHASE DATE

ELECTION OF HOLDER TO REQUIRE REPURCHASE

1. Pursuant to Article 13 of the Indenture, the undersigned hereby elects to have this Security repurchased by the Company.

2. The undersigned hereby directs the Company to pay it or _____ the Repurchase Price on the Repurchase Date as provided in the Indenture.

Dated: -----

Signature(s) must be guaranteed by a commercial bank or trust company or a member firm of a major stock exchange with membership in an approved signature guarantee medallion program pursuant to the Securities and Exchange Commission Rule 17Ad-15.

Signature Guaranteed

Principal amount to be repurchased: -----

Remaining principal amount following such repurchase: -----

NOTICE: The signature to the foregoing Election must correspond to the name as written upon the face of this Security in every particular, without alteration or any change whatsoever.

SCHEDULE OF EXCHANGES OF NOTES(4)

The following exchanges, redemptions, repurchases or conversions of a part of this global Note have been made:

PRINCIPAL AMOUNT OF THIS GLOBAL NOTE FOLLOWING SUCH DECREASE DATE OF EXCHANGE (OR INCREASE)	AUTHORIZED SIGNATORY OF SECURITIES CUSTODIAN	AMOUNT OF DECREASE IN PRINCIPAL AMOUNT OF THIS GLOBAL NOTE	AMOUNT OF INCREASE IN PRINCIPAL AMOUNT OF THIS GLOBAL NOTE

(4) This certificate should only be included if this Security is a Transfer Restricted Security.

CERTIFICATE TO BE DELIVERED UPON EXCHANGE OR REGISTRATION
OF TRANSFER OF TRANSFER RESTRICTED SECURITIES(5)

Re: 4 1/2% Convertible Subordinated Notes due August 15, 2005 (the "Notes")
of Cyras Systems, Inc.

This certificate relates to \$_____ principal amount of Notes owned in
(check applicable box)

book-entry or definitive form by _____ (the
"Transferor").

The Transferor has requested a Registrar or the Trustee to exchange or
register the transfer of such Notes.

In connection with such request and in respect of each such Note, the
Transferor does hereby certify that the Transferor is familiar with transfer
restrictions relating to the Notes as provided in Section 2.12 of the
Indenture dated as of August 18, 2000 between Cyras Systems, Inc. and State
Street Bank and Trust Company of California, N.A. (the "Indenture"), and the
transfer of such Note is being made pursuant to an effective registration
statement under the Securities Act of 1933, as amended (the "Securities Act")
(check applicable box) or the transfer or exchange, as the case may be, of
such Note does not require registration under the Securities Act because
(check applicable box):

- Such Note is being transferred pursuant to an effective
registration statement under the Securities Act.
- Such Note is being acquired for the Transferor's own account,
without transfer.
- Such Note is being transferred to the Company or a Subsidiary
(as defined in the Indenture) of the Company.
- Such Note is being transferred to a person the Transferor
reasonably believes is a "qualified institutional buyer" (as
defined in Rule 144A or any successor provision thereto ("Rule
144A") under the Securities Act) that is purchasing for its own
account or for the account of a "qualified institutional
buyer", in each case to whom notice has been given that the
transfer is being made in reliance on such Rule 144A, and in
each case in reliance on Rule 144A.
- Such Note is being transferred pursuant to and in compliance
with an exemption from the registration requirements under the
Securities Act in accordance with Rule 144 (or any successor
thereto) ("Rule 144") under the Securities Act.

Such Note is being transferred pursuant to and in compliance with an
exemption from the registration requirements of the Securities Act (other than
an exemption referred to above) and as a result of which such

(5) This schedule should be included only if the Security is a global
Security.

Note will, upon such transfer, cease to be a "restricted security" within the meaning of Rule 144 under the Securities Act.

The Transferor acknowledges and agrees that, if the transferee will hold any such Notes in the form of beneficial interests in a global Note which is a "restricted security" within the meaning of Rule 144 under the Securities Act, then such transfer can only be made pursuant to Rule 144A under the Securities Act and such transferee must be a "qualified institutional buyer" (as defined in Rule 144A).

Date:

(Insert Name of Transferor)

Exhibit 4.8

CYRAS SYSTEMS, INC.

4 1/2% Convertible Subordinated Notes Due August 15, 2005

FIRST SUPPLEMENTAL INDENTURE

Dated as of November 27, 2000

to

INDENTURE

Dated as of August 18, 2000

STATE STREET BANK AND TRUST COMPANY OF CALIFORNIA, N.A.

FIRST SUPPLEMENTAL INDENTURE (the "First Supplemental Indenture") dated as of November 27, 2000 between Cyras Systems, Inc., a California corporation (the "Company"), and State Street Bank and Trust Company of California, N.A., a national banking association organized and existing under the laws of the United States (the "Trustee").

W I T N E S S E T H:

WHEREAS, there has previously been executed and delivered to the Trustee an Indenture dated as of August 18, 2000 (the "Indenture"), providing for the issuance of \$150,000,000 in aggregate principal amount of 4 1/2% Convertible Subordinated Notes due August 15, 2005 (the "Notes") by the Company;

WHEREAS, Section 4.1 of the Indenture provides that the Notes will not be convertible prior to the 90th day following a Complying Public Equity Offering;

WHEREAS, prior to the execution of the Indenture it was the Company's intent in connection with the Company's contemplated Complying Public Equity Offering to reincorporate the Company from California to Delaware by merging (the "Merger") Cyras Systems California with and into Cyras Systems, Inc., a Delaware corporation ("Cyras Systems Delaware"), with Cyras Systems Delaware as the surviving corporation in the Merger pursuant to an Agreement and Plan of Merger between Cyras Systems California and Cyras Systems Delaware;

WHEREAS, Section 4.11 of the Indenture provides that in the event of certain mergers or consolidations occurring prior to Complying Public Equity Offering the Notes will become convertible as a result of such merger or consolidation at a conversion price of \$55.40 per share, subject to the certain adjustments, notwithstanding the aforementioned provisions of Section 4.11 of the Indenture;

WHEREAS, Section 3.8 of the Indenture provides that the reincorporation of the Company from California to Delaware in contemplation of a Complying Public Equity Offering will not constitute a Change in Control under the Indenture;

WHEREAS, the Company now desires to modify the Indenture, as set forth herein, in order to expressly provide that the reincorporation of the Company from California and Delaware in preparation for the Company's proposed Complying Public Equity Offering would not result in Notes being immediately convertible into Common Stock at the conversion price set forth in Section 4.11;

WHEREAS, Section 11.1 of the Indenture provides that the Company (as defined in the Indenture) and the Trustee may, without the consent of any Holders, enter into a supplemental indenture to cure any inconsistency;

WHEREAS, in accordance with Section 12.4 of the Indenture, the Company (as defined in the Indenture) has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel;

WHEREAS, all acts and proceedings required by law, under the Indenture to constitute this First Supplemental Indenture a valid and binding agreement for the uses and purposes set forth herein, in accordance with its terms, have been done and taken, and the execution and delivery of this First Supplemental Indenture have been in all respects duly authorized by the Company; and

WHEREAS, the foregoing recitals are made as representations of fact by the Company and not by the Trustee;

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Company and the Trustee hereby agree as follows:

1. For the purposes of this First Supplemental Indenture, except as otherwise herein expressly provided or unless the context otherwise requires: (i) the capitalized terms and expressions used herein shall have the same meaning as corresponding terms and expressions used in the Indenture; and (ii) the words "herein," "hereof" and "hereby" and other words of similar import used in this First Supplemental Indenture refer to this First Supplemental Indenture as a whole and not to any particular section hereof.

2. Effective as of the date hereof, Section 4.11 is amended by adding the following sentence to the end of the first paragraph of Section 4.11:

Notwithstanding the foregoing provisions of this Section 4.11, in no event will the Notes become convertible on or prior to a Complying Public Equity Offering as a result of a merger or consolidation that involves the reincorporation of the Company from a California corporation to a Delaware corporation in contemplation of a Complying Public Equity Offering.

3. The Trustee accepts the amendment of the Indenture effected by this First Supplemental Indenture and agrees to execute the trust created by the Indenture, as hereby amended, including the terms and conditions as set forth in the Indenture, as hereby amended, including the terms and provisions defining and limiting the liabilities and responsibilities of the Trustee, which terms and provisions shall in like manner define and limit its liabilities in the performance of the trust created by the Indenture, as hereby amended, and without limiting the generality of the foregoing, the Trustee has no responsibility for the correctness of the recitals of fact herein contained which shall be taken as the statements of the Company and makes no representations as to the validity or sufficiency of this First Supplemental Indenture and shall incur no liability or responsibility in respect of the validity thereof.

4. Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed, and all the terms, conditions and provisions hereof shall remain in full force and effect.

5. This First Supplemental Indenture shall form a part of the Indenture for all purposes, and every holder of Notes heretofore or hereafter authenticated shall be bound hereby.

6. This First Supplemental Indenture may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original, and all of such counterparts shall together constitute one and the same instrument.

7. This First Supplemental Indenture shall be deemed to be a contract made under the laws of the State of New York and for all purposes shall be governed by and construed in accordance with such laws.

IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Indenture to be duly executed all as of the day and year first above written.

CYRAS SYSTEMS, INC.,
=
a California corporation

By: _/s/ SHEKHAR MANDAL

Shekhar Mandal
Vice President for Finance and Administration
and Chief Financial Officer

STATE STREET BANK AND TRUST
COMPANY OF CALIFORNIA, N.A.,

By: /s/ STEPHEN RIVERO

Stephen Rivero
Vice President

Exhibit 4.9

CYRAS SYSTEMS, INC.

4 1/2% Convertible Subordinated Notes Due August 15, 2005

SECOND SUPPLEMENTAL INDENTURE

Dated as of November 28, 2000

to

INDENTURE

Dated as of August 18, 2000

STATE STREET BANK AND TRUST COMPANY OF CALIFORNIA, N.A.

SECOND SUPPLEMENTAL INDENTURE (the "Second Supplemental Indenture") dated as of November 28, 2000 between Cyras Systems, Inc., a Delaware corporation ("Cyras Systems Delaware"), and State Street Bank and Trust Company of California, N.A., a national banking association organized and existing under the laws of the United States (the "Trustee").

W I T N E S S E T H:

WHEREAS, there has previously been executed and delivered to the Trustee an Indenture dated as of August 18, 2000 (the "Indenture"), providing for the issuance of \$150,000,000 in aggregate principal amount of 4 1/2% Convertible Subordinated Notes due August 15, 2005 (the "Notes") of Cyras Systems, Inc., a California corporation ("Cyras Systems California");

WHEREAS, Cyras Systems California has merged (or will merge substantially concurrently with the execution and delivery of this Second Supplemental Indenture) with and into Cyras Systems Delaware (the "Merger"), with Cyras Systems Delaware as the surviving corporation in the Merger pursuant to an Agreement and Plan of Merger, dated as of November 16, 2000, among Cyras Systems California and Cyras Systems Delaware;

WHEREAS, pursuant to the Merger each outstanding share of common stock of Cyras Systems California is converted into one outstanding share of common stock of Cyras Systems Delaware;

WHEREAS, in the case of a merger of Cyras Systems California with and into any other corporation, Article 7 and Section 4.11 of the Indenture require that the surviving corporation execute and deliver to the Trustee a supplemental indenture providing for certain conversion rights to Holders of the Notes and the assumption by the surviving corporation of the covenants, agreements and obligations of the Company under the Indenture;

WHEREAS, Section 11.1 of the Indenture provides that the Company (as defined in the Indenture) and the Trustee may, without the consent of any Holders, enter into a supplemental indenture to comply with the terms of Article 7 and Section 4.11 of the Indenture;

WHEREAS, in accordance with Sections 11.1 and 12.4 of the Indenture, the Company (as defined in the Indenture) has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel; and

WHEREAS, all acts and proceedings required by law, under the Indenture and by the Certificate of Incorporation of Cyras Systems Delaware to constitute this Second Supplemental Indenture a valid and binding agreement for the uses and purposes set forth herein, in accordance with its terms, have been done and taken, and the execution and delivery of this Second Supplemental Indenture have been in all respects duly authorized by Cyras Systems Delaware;

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, Cyras Systems Delaware and the Trustee hereby agree as follows:

1. For the purposes of this Second Supplemental Indenture, except as otherwise herein expressly provided or unless the context otherwise requires: (i) the capitalized terms and expressions used herein shall have the same meaning as corresponding terms and expressions used in the Indenture; and (ii) the words "herein," "hereof" and "hereby" and other words of similar import used in this Second Supplemental Indenture refer to this Second Supplemental Indenture as a whole and not to any particular section hereof.

2. Cyras Systems Delaware hereby assumes all the covenants, agreements and obligations of the Company under the Notes and the Indenture, including the obligation to make due and punctual payment of the principal of and premium, if any, and interest on all of the Notes and the due and punctual performance of all of the covenants and conditions to be performed by the Company under the Indenture. From and after the effective time of the Merger, the Notes shall be convertible into shares of common stock of Cyras Systems Delaware on the same terms and basis (and subject to the same adjustments under the Indenture) as the Notes were convertible into common stock of Cyras Systems California prior to the effectiveness of the Merger, and on and after the effective time of the Merger references in the Indenture to "Common Stock" shall be deemed to be references to common stock of Cyras Systems Delaware.

3. The Trustee accepts the amendment of the Indenture effected by this Second Supplemental Indenture and agrees to execute the trust created by the Indenture, as hereby amended, including the terms and conditions as set forth in the Indenture, as hereby amended, including the terms and provisions defining and limiting the liabilities and responsibilities of the Trustee, which terms and provisions shall in like manner define and limit its liabilities in the performance of the trust created by the Indenture, as hereby amended, and without limiting the generality of the foregoing, the Trustee has no responsibility for the correctness of the recitals of fact herein contained which shall be taken as the statements of Cyras Systems Delaware and makes no representations as to the validity or sufficiency of this Second Supplemental Indenture and shall incur no liability or responsibility in respect of the validity thereof.

4. Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed, and all the terms, conditions and provisions hereof shall remain in full force and effect.

5. This Second Supplemental Indenture shall form a part of the Indenture for all purposes, and every holder of Notes heretofore or hereafter authenticated shall be bound hereby.

6. This Second Supplemental Indenture may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original, and all of such counterparts shall together constitute one and the same instrument.

7. This Second Supplemental Indenture shall be deemed to be a contract made under the laws of the State of New York and for all purposes shall be governed by and construed in accordance with such laws.

IN WITNESS WHEREOF, the parties hereto have caused this Second Supplemental Indenture to be duly executed all as of the day and year first above written.

CYRAS SYSTEMS, INC.,
=
a California corporation

By: /s/ SHEKHAR MANDAL

Shekhar Mandal
Vice President for Finance and Administration
and Chief Financial Officer

STATE STREET BANK AND TRUST
COMPANY OF CALIFORNIA, N.A.,

By: /s/ STEPHEN RIVERO

Stephen Rivero
Vice President

CYRAS SYSTEMS, INC.

4 1/2% Convertible Subordinated Notes Due August 15, 2005

THIRD SUPPLEMENTAL INDENTURE
Dated as of March 29, 2000

to

INDENTURE
Dated as of August 18, 2000

STATE STREET BANK AND TRUST COMPANY OF CALIFORNIA, N.A.

THIRD SUPPLEMENTAL INDENTURE

THIRD SUPPLEMENTAL INDENTURE (the "Third Supplemental Indenture") dated as of March 29, 2001, between Cyras Systems, Inc., a Delaware corporation (the "Company"), CIENA Corporation, a Delaware corporation ("CIENA"), and State Street Bank and Trust Company of California, N.A., a national banking association organized and existing under the laws of the United States (the "Trustee").

WITNESSETH:

WHEREAS, there has previously been executed and delivered to the Trustee an indenture dated as of August 18, 2000 (as amended and supplemented to date, the "Indenture"), providing for the issuance of \$150,000,000 in aggregate principal amount of the Company's 4 1/2% Convertible Subordinated Notes due August 15, 2005 (the "Notes"); and

WHEREAS, the Company, CIENA and CO Acquisition Corp. have entered into an Agreement and Plan of Merger, dated as of December 18, 2000, pursuant to which the Company will, substantially concurrently with the execution and delivery of this Third Supplemental Indenture, be a party to a merger with CO Acquisition Corp. (the "Merger"), and will thereby become a wholly-owned subsidiary of CIENA; and

WHEREAS, pursuant to the Merger, each outstanding share of Common Stock of the Company is being converted into shares of common stock of CIENA; and

WHEREAS, Section 4.11 of the Indenture requires that, as a condition precedent to a transaction such as the one contemplated by the Merger, a supplemental indenture be executed and delivered by the successor providing that the Holders of the Notes shall have the right to convert the Notes into the kind and amount of shares of CIENA common stock receivable in the Merger by holders of the number of shares of Common Stock of the Company deliverable upon conversion of the Notes immediately prior to the Merger; and

WHEREAS, Section 4.11 of the Indenture requires that the supplemental indenture shall further provide for adjustments of the Conversion Price that are as nearly equivalent as practicable to the adjustments of the Conversion Price provided in Article 4 of the Indenture, and shall contain such additional provisions as the Board of Directors shall reasonably consider necessary to protect the interests of the Holders of the Securities; and

WHEREAS, Section 4.11 of the Indenture requires that in the event of a transaction such as the one contemplated by the Merger, the Conversion Price is set at \$55.40, subject to adjustment upon certain events pursuant to Section 4.6, including a stock split; and

WHEREAS, on November 28, 2000, the Company effected a three-for-one split of its outstanding Common Stock, requiring adjustment pursuant to Section 4.6; and

WHEREAS, in accordance with Sections 11.1 and 12.4 of the Indenture, the Company is concurrently delivering to the Trustee an Officers' Certificate and an Opinion of Counsel; and

WHEREAS, all acts and proceedings required by law, under the Indenture and by the respective Certificates of Incorporation of the Company and CIENA to constitute this Third Supplemental Indenture a valid and binding agreement for the uses and purposes set forth herein, in accordance with its terms, have been done and taken, and the execution and delivery of this Third Supplemental Indenture have been in all respects duly authorized by each of the Company and CIENA.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Company, CIENA and Trustee hereby agree as follows:

1. For the purposes of this Third Supplemental Indenture, except as otherwise herein expressly provided or unless the context otherwise requires: (i) the capitalized terms and expressions used herein shall have the same meaning as corresponding terms and expressions used in the Indenture; and (ii) the words, "herein," "hereof," and hereby" and other words of similar import used in this Third Supplemental Indenture refer to this Third Supplemental Indenture as a whole and not to any particular section hereof.

2. Pursuant to the provisions of Section 4.11 of the Indenture, from and after the effective time of the Merger, a Holder of any Note may, at any time prior to the Final Maturity Date, convert the principal amount of such Note (or any portion thereof equal to \$1,000 or an integral multiple of \$1,000) into shares of CIENA common stock \$0.01 par value, at a Conversion Price of \$144.64, subject to earlier termination of such right if the Note is called for redemption under Article 3 of the Indenture.

3. From and after the effective time of the Merger, a Change of Control of CIENA shall have the same effect as a Change of Control of the Company under the Indenture, and a Change of Control of CIENA shall mean the same as "Change of Control," as defined in Section 3.8 of the Indenture, substituting CIENA for the Company in that definition.

4. In accordance with Section 4.11 of the Indenture, from and after the Effective Time of the Merger adjustments to the Conversion Price as established by Section 2 of this Supplemental Indenture are to be as nearly equivalent as practicable to the adjustments provided for in Sections 4.6, 4.7, and 4.8 of the Indenture, as if CIENA had been named in those sections as the Company. In the event of an adjustment to the Conversion Price under Sections 4.6, 4.7 and 4.8 of the Indenture, CIENA will provide to the Trustee an Officers' Certificate of CIENA equivalent to and with the same effect as the Officers' Certificate contemplated by Section 4.9.

5. Conversion of the Notes into CIENA common stock shall take place in the manner and under the terms provided for conversion by Sections 4.2, 4.3, and 4.4 of the Indenture.

6. From and after the effective date of the Merger, and from time to time as may be necessary thereafter, CIENA shall reserve, out of its authorized but unissued CIENA common stock, a sufficient number of shares of CIENA common stock to permit the conversion of all outstanding Notes into shares of CIENA common stock. Such shares of CIENA common stock shall be newly issued shares, shall be duly authorized, validly issued, fully paid and nonassessable and shall be free from preemptive rights and free of any lien or adverse claim. CIENA will endeavor to promptly comply with all federal and state securities laws regulating the offer and delivery of shares of common stock upon conversion of Notes, if any, and will list or cause to have quoted such shares of CIENA Common Stock on each national securities exchange or on the NASDAQ National Market or other over-the-counter market or such other market on which the CIENA Common Stock is then listed or quoted.

7. From and after the effective date of the Merger, CIENA will comply with the notice requirement of Section 4.10 as if CIENA had been named as the Company for purposes of that section.

8. With the exception of the last two sentences of the first paragraph of Section 4.11, from and after the effective date of the Merger, CIENA will comply with the first paragraph of Section 4.11 as if CIENA had been named as the Company in that portion of Section 4.11.

9. From and after the effective date of the Merger, CIENA may from time to time reduce the Conversion Price in the manner and within the limitations contemplated by Section 4.13.

10. From and after the effective date of the Merger, CIENA will comply with the terms of Article 7 of the Indenture as if CIENA was named as the Company in Article 7 of the Indenture.

11. From and after the effective date of the Merger, failure of CIENA to comply with any of its agreements contained in this Third Supplemental Indenture shall constitute an Event of Default for purposes of Article 8 of the Indenture. Notwithstanding the previous sentence, failure of CIENA to comply with any of its agreements contained in this Third Supplemental Indenture shall not be an Event of Default until the Trustee notifies CIENA and the Company, or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding notify CIENA, the Company and the Trustee, of the default, and CIENA does not cure the default within 60 days after receipt of such notice. The notice given pursuant to this paragraph must specify the default, demand that it be remedied and state that the notice is a "Notice of Default." When any default under this paragraph is cured, it ceases. The Trustee shall not be charged with knowledge of an Event of Default unless written notice thereof shall have been given to a Trust Officer at the Corporate Trust Office of the Trustee by CIENA, the Company, a Paying Agent, any Holder or any agent of any Holder.

12. Upon request of the trustee, CIENA will execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purposes of this Third Supplemental Indenture.

13. The Trustee accepts the amendment of the Indenture effected by this Third Supplemental Indenture and agrees to execute the trust created by the Indenture, as hereby amended, including the terms and conditions as set forth in the Indenture, as hereby amended, including the terms and provisions defining and limiting the liabilities and responsibilities of the Trustee, which terms and provisions shall in like manner define and limit its liabilities in the performance of the trust created by the Indenture, as hereby amended, and without limiting the generality of the foregoing, the Trustee has no responsibility for the correctness of the recitals of fact herein contained which shall be taken as the statements of the Company and CIENA and makes no representations as to the validity or sufficiency of this Third Supplemental and shall incur no liability or responsibility in respect of the validity thereof.

14. Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed by the Company and Trustee, and all the terms conditions and provisions shall remain in full force and effect.

15. This Third Supplemental Indenture shall form a part of the Indenture for all purposes, and every holder of Notes heretofore or hereafter authenticated shall be bound hereby.

16. This Third Supplemental Indenture may be executed in any number of counterparts each of which when so executed shall be deemed to be an original, and all of such counterparts shall together constitute one and the same instrument.

17. This Third Supplemental Indenture shall be deemed to be a contract made under the laws of the State of New York and for all purposes shall be governed by and construed in accordance with such laws.

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IN WITNESS WHEREOF, the parties hereto have caused this Third Supplemental Indenture to be executed all as of the day and year first above written

CIENA CORPORATION

By: /s/ MICHAEL O. MCCARTHY III

Its: Senior Vice President and General Counsel

CYRAS SYSTEMS, INC.

By: /s/ SHEKHAR MANDAL

Its: Vice President for Finance and Administration, and Chief Financial Officer

STATE STREET BANK AND TRUST COMPANY OF CALIFORNIA, N.A., as Trustee

By: /s/ STEPHEN RIVERO

Its: Vice President

CYRAS SYSTEMS, INC.
1998 STOCK PLAN

(AS AMENDED THROUGH AUGUST 23, 2000)

ARTICLE ONE

GENERAL PROVISIONS

I. PURPOSE OF THE PLAN

This 1998 Stock Plan is intended to promote the interests of Cyras Systems, Inc., a Delaware corporation, by providing eligible persons in the Corporation's employ or service with the opportunity to acquire a proprietary interest, or otherwise increase their proprietary interest, in the Corporation as an incentive for them to continue in such employ or service.

Capitalized terms herein shall have the meanings assigned to such terms in the attached Appendix.

II. STRUCTURE OF THE PLAN

A. The Plan shall be divided into two (2) separate equity programs:

(i) the Option Grant Program under which eligible persons may, at the discretion of the Plan Administrator, be granted options to purchase shares of Common Stock, and

(ii) the Stock Issuance Program under which eligible persons may, at the discretion of the Plan Administrator, be issued shares of Common Stock directly, either through the immediate purchase of such shares or as a bonus for services rendered the Corporation (or any Parent or Subsidiary).

B. The provisions of Articles One and Four shall apply to both equity programs under the Plan and shall accordingly govern the interests of all persons under the Plan.

III. ADMINISTRATION OF THE PLAN

A. The Plan shall be administered by the Board. However, any or all administrative functions otherwise exercisable by the Board may be delegated to the Committee. Members of the Committee shall serve for such period of time as the Board may determine and shall be subject to removal by the Board at any time. The Board may also at any time terminate the functions of the Committee and reassume all powers and authority previously delegated to the Committee.

B. The Plan Administrator shall have full power and authority (subject to the provisions of the Plan) to establish such rules and regulations as it may deem appropriate for proper administration of the Plan and to make such determinations under, and issue such interpretations of, the Plan and any outstanding options or stock issuances thereunder as it may deem necessary or advisable. Decisions of the Plan Administrator shall be final and binding on all parties who have an interest in the Plan or any option grant or stock issuance thereunder.

IV. ELIGIBILITY

A. The persons eligible to participate in the Plan are as follows:

(i) Employees,

(ii) non-employee members of the Board or the non-employee members of the board of directors of any Parent or Subsidiary, and

(iii) consultants and other independent advisors who provide services to the Corporation (or any Parent or Subsidiary).

B. The Plan Administrator shall have full authority to determine, (i) with respect to the grants made under the Option Grant Program, which eligible persons are to receive the option grants, the time or times when those grants are to be made, the number of shares to be covered by each such grant, the status of the granted option as either an Incentive Option or a Non-Statutory Option, the time or times when each option is to become exercisable, the vesting schedule (if any) applicable to the option shares and the maximum term for which the option is to remain outstanding, and (ii) with respect to stock issuances made under the Stock Issuance Program, which eligible persons are to receive such stock issuances, the time or times when those issuances are to be made, the number of shares to be issued to each Participant, the vesting schedule (if any) applicable to the issued shares and the consideration to be paid by the Participant for such shares.

C. The Plan Administrator shall have the absolute discretion either to grant options in accordance with the Option Grant Program or to effect stock issuances in accordance with the Stock Issuance Program.

V. STOCK SUBJECT TO THE PLAN

A. The stock issuable under the Plan shall be shares of authorized but unissued or reacquired Common Stock. The maximum number of shares of Common Stock which may be issued over the term of the Plan shall not exceed 65,400,000 (post split) shares.

B. Shares of Common Stock subject to outstanding options shall be available for subsequent issuance under the Plan to the extent (i) the options expire or terminate for any reason prior to exercise in full or (ii) the options are cancelled in accordance with the cancellation-regrant provisions of Article Two. Unvested shares issued under the Plan and subsequently repurchased by the Corporation, at the option exercise or direct issue price paid

per share, pursuant to the Corporation's repurchase rights under the Plan shall be added back to the number of shares of Common Stock reserved for issuance under the Plan and shall accordingly be available for reissuance through one or more subsequent option grants or direct stock issuances under the Plan.

C. Should any change be made to the Common Stock by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration, appropriate adjustments shall be made to (i) the maximum number and/or class of securities issuable under the Plan and (ii) the number and/or class of securities and the exercise price per share in effect under each outstanding option in order to prevent the dilution or enlargement of benefits thereunder. The adjustments determined by the Plan Administrator shall be final, binding and conclusive. In no event shall any such adjustments be made in connection with the conversion of one or more outstanding shares of the Corporation's preferred stock into shares of Common Stock.

ARTICLE TWO

OPTION GRANT PROGRAM

I. OPTION TERMS

Each option shall be evidenced by one or more documents in the form approved by the Plan Administrator; provided, however, that each such document shall comply with the terms specified below. Each document evidencing an Incentive Option shall, in addition, be subject to the provisions of the Plan applicable to such options.

A. EXERCISE PRICE.

1. The exercise price per share shall be fixed by the Plan Administrator in accordance with the following provisions:

(i) The exercise price per share shall not be less than eighty-five percent (85%) of the Fair Market Value per share of Common Stock on the option grant date.

(ii) If the person to whom the option is granted is a 10% Shareholder, then the exercise price per share shall not be less than one hundred ten percent (110%) of the Fair Market Value per share of Common Stock on the option grant date.

2. The exercise price shall become immediately due upon exercise of the option and shall, subject to the provisions of Section I of Article Four and the documents evidencing the option, be payable in cash or check made payable to the Corporation. Should the Common Stock be registered under Section 12 of the 1934 Act at the time the option is exercised, then the exercise price may also be paid as follows:

(i) in shares of Common Stock held for the requisite period necessary to avoid a charge to the Corporation's earnings for financial reporting purposes and valued at Fair Market Value on the Exercise Date, or

(ii) to the extent the option is exercised for vested shares, through a special sale and remittance procedure pursuant to which the Optionee shall concurrently provide irrevocable instructions (A) to a Corporation-designated brokerage firm to effect the immediate sale of the purchased shares and remit to the Corporation, out of the sale proceeds available on the settlement

4.

date, sufficient funds to cover the aggregate exercise price payable for the purchased shares plus all applicable Federal, state and local income and employment taxes required to be withheld by the Corporation by reason of such exercise and (B) to the Corporation to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale.

Except to the extent such sale and remittance procedure is utilized, payment of the exercise price for the purchased shares must be made on the Exercise Date.

B. EXERCISE AND TERM OF OPTIONS. Each option shall be exercisable at such time or times, during such period and for such number of shares as shall be determined by the Plan Administrator and set forth in the documents evidencing the option grant. However, no option shall have a term in excess of ten (10) years measured from the option grant date.

C. EFFECT OF TERMINATION OF SERVICE.

1. The following provisions shall govern the exercise of any options held by the Optionee at the time of cessation of Service or death:

(i) Should the Optionee cease to remain in Service for any reason other than death, Disability or Misconduct, then the Optionee shall have a period of three (3) months following the date of such cessation of Service during which to exercise each outstanding option held by such Optionee.

(ii) Should Optionee's Service terminate by reason of Disability, then the Optionee shall have a period of twelve (12) months following the date of such cessation of Service during which to exercise each outstanding option held by such Optionee.

(iii) If the Optionee dies while holding an outstanding option, then the personal representative of his or her estate or the person or persons to whom the option is transferred pursuant to the Optionee's will or the laws of inheritance shall have a twelve (12)-month period following the date of the Optionee's death to exercise such option.

(iv) Under no circumstances, however, shall any such option be exercisable after the specified expiration of the option term.

(v) During the applicable post-Service exercise period, the option may not be exercised in the aggregate for more than the number of vested shares for which the option is exercisable on the date of the Optionee's cessation of Service. Upon the expiration of the applicable exercise period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be outstanding for any vested shares for which the option has not been exercised. However, the option shall, immediately upon the Optionee's cessation

of Service, terminate and cease to be outstanding with respect to any and all option shares for which the option is not otherwise at the time exercisable or in which the Optionee is not otherwise at that time vested.

(vi) Should Optionee's Service be terminated for Misconduct, then all outstanding options held by the Optionee shall terminate immediately and cease to remain outstanding.

2. The Plan Administrator shall have the discretion, exercisable either at the time an option is granted or at any time while the option remains outstanding, to:

(i) extend the period of time for which the option is to remain exercisable following Optionee's cessation of Service or death from the limited period otherwise in effect for that option to such greater period of time as the Plan Administrator shall deem appropriate, but in no event beyond the expiration of the option term, and/or

(ii) permit the option to be exercised, during the applicable post-Service exercise period, not only with respect to the number of vested shares of Common Stock for which such option is exercisable at the time of the Optionee's cessation of Service but also with respect to one or more additional installments in which the Optionee would have vested under the option had the Optionee continued in Service.

D. SHAREHOLDER RIGHTS. The holder of an option shall have no shareholder rights with respect to the shares subject to the option until such person shall have exercised the option, paid the exercise price and become the recordholder of the purchased shares.

E. UNVESTED SHARES. The Plan Administrator shall have the discretion to grant options which are exercisable for unvested shares of Common Stock. Should the Optionee cease Service while holding such unvested shares, the Corporation shall have the right to repurchase, at the exercise price paid per share, any or all of those unvested shares. The terms upon which such repurchase right shall be exercisable (including the period and procedure for exercise and the appropriate vesting schedule for the purchased shares) shall be established by the Plan Administrator and set forth in the document evidencing such repurchase right. The Plan Administrator may not impose a vesting schedule upon any option grant or the shares of Common Stock subject to that option which is more restrictive than twenty percent (20%) per year vesting, with the initial vesting to occur not later than one (1) year after the option grant date. However, such limitation shall not be applicable to any option grants made to individuals who are officers of the Corporation, non-employee Board members or independent consultants.

F. FIRST REFUSAL RIGHTS. Until such time as the Common Stock is first registered under Section 12 of the 1934 Act, the Corporation shall have the right of first refusal with respect to any proposed disposition by the Optionee (or any successor in interest) of any shares of Common Stock issued under the Plan. Such right of first refusal shall be exercisable in accordance with the terms established by the Plan Administrator and set forth in the document evidencing such right.

G. LIMITED TRANSFERABILITY OF OPTIONS. During the lifetime of the Optionee, the option shall be exercisable only by the Optionee and shall not be assignable or transferable other than by will or by the laws of descent and distribution following the Optionee's death.

II. INCENTIVE OPTIONS

The terms specified below shall be applicable to all Incentive Options. Except as modified by the provisions of this Section II, all the provisions of Articles One, Two and Four shall be applicable to Incentive Options. Options which are specifically designated as Non-Statutory Options shall not be subject to the terms of this Section II.

A. ELIGIBILITY. Incentive Options may only be granted to Employees.

B. EXERCISE PRICE. The exercise price per share shall not be less than one hundred percent (100%) of the Fair Market Value per share of Common Stock on the option grant date.

C. DOLLAR LIMITATION. The aggregate Fair Market Value of the shares of Common Stock (determined as of the respective date or dates of grant) for which one or more options granted to any Employee under the Plan (or any other option plan of the Corporation or any Parent or Subsidiary) may for the first time become exercisable as Incentive Options during any one (1) calendar year shall not exceed the sum of One Hundred Thousand Dollars (\$100,000). To the extent the Employee holds two (2) or more such options which become exercisable for the first time in the same calendar year, the foregoing limitation on the exercisability of such options as Incentive Options shall be applied on the basis of the order in which such options are granted.

D. 10% SHAREHOLDER. If any Employee to whom an Incentive Option is granted is a 10% Shareholder, then the option term shall not exceed five (5) years measured from the option grant date.

III. CORPORATE TRANSACTION

A. The shares subject to each option outstanding under the Plan at the time of a Corporate Transaction shall automatically vest in full so that each such option shall, immediately prior to the effective date of the Corporate Transaction, become fully exercisable for all of the shares of Common Stock at the time subject to that option and may be exercised for any or all of those shares as fully-vested shares of Common Stock. However, the shares subject to an outstanding option shall NOT vest on such an accelerated basis if and to the extent:

(i) such option is to be assumed by the successor corporation (or parent thereof) in the Corporate Transaction and any repurchase rights of the Corporation with respect to the unvested option shares are concurrently to be assigned to such successor corporation (or parent thereof) or (ii) such option is to be replaced with a cash incentive program of the successor corporation which preserves the spread existing on the unvested option shares at the time of the Corporate Transaction and provides for subsequent payout in accordance with the same vesting schedule applicable to those unvested option shares or (iii) the acceleration of such option is subject to other limitations imposed by the Plan Administrator at the time of the option grant.

B. All outstanding repurchase rights shall also terminate automatically, and the shares of Common Stock subject to those terminated rights shall immediately vest in full, in the event of any Corporate Transaction, except to the extent: (i) those repurchase rights are assigned to the successor corporation (or parent thereof) in connection with such Corporate Transaction or (ii) such accelerated vesting is precluded by other limitations imposed by the Plan Administrator at the time the repurchase right is issued.

C. Immediately following the consummation of the Corporate Transaction, all outstanding options shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof).

D. Each option which is assumed in connection with a Corporate Transaction shall be appropriately adjusted, immediately after such Corporate Transaction, to apply to the number and class of securities which would have been issuable to the Optionee in consummation of such Corporate Transaction, had the option been exercised immediately prior to such Corporate Transaction. Appropriate adjustments shall also be made to (i) the number and class of securities available for issuance under the Plan following the consummation of such Corporate Transaction and (ii) the exercise price payable per share under each outstanding option, provided the aggregate exercise price payable for such securities shall remain the same.

E. The Plan Administrator shall have the discretion, exercisable either at the time the option is granted or at any time while the option remains outstanding, to structure one or more options so that those options shall automatically accelerate and vest in full (and any repurchase rights of the Corporation with respect to the unvested shares subject to those options shall immediately terminate) upon the occurrence of a Corporate Transaction, whether or not those options are to be assumed in the Corporate Transaction.

F. The Plan Administrator shall also have full power and authority, exercisable either at the time the option is granted or at any time while the option remains outstanding, to structure such option so that the shares subject to that option will automatically vest on an accelerated basis should the Optionee's Service terminate by reason of an Involuntary Termination within a designated period (not to exceed twenty-four (24) months) following the effective date of any Corporate Transaction in which the option is assumed and the repurchase

rights applicable to those shares do not otherwise terminate. Any option so accelerated shall remain exercisable for the fully-vested option shares until the expiration or sooner termination of the option term. In addition, the Plan Administrator may provide that one or more of the Corporation's outstanding repurchase rights with respect to shares held by the Optionee at the time of such Involuntary Termination shall immediately terminate on an accelerated basis, and the shares subject to those terminated rights shall accordingly vest at that time.

G. The portion of any Incentive Option accelerated in connection with a Corporate Transaction shall remain exercisable as an Incentive Option only to the extent the applicable One Hundred Thousand Dollar limitation is not exceeded. To the extent such dollar limitation is exceeded, the accelerated portion of such option shall be exercisable as a Non-Statutory Option under the Federal tax laws.

H. The grant of options under the Plan shall in no way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

IV. CANCELLATION AND REGRANT OF OPTIONS

The Plan Administrator shall have the authority to effect, at any time and from time to time, with the consent of the affected option holders, the cancellation of any or all outstanding options under the Plan and to grant in substitution therefor new options covering the same or different number of shares of Common Stock but with an exercise price per share based on the Fair Market Value per share of Common Stock on the new option grant date.

ARTICLE THREE

STOCK ISSUANCE PROGRAM

I. STOCK ISSUANCE TERMS

Shares of Common Stock may be issued under the Stock Issuance Program through direct and immediate issuances without any intervening option grants. Each such stock issuance shall be evidenced by a Stock Issuance Agreement which complies with the terms specified below.

A. PURCHASE PRICE.

1. The purchase price per share shall be fixed by the Plan Administrator but shall not be less than eighty-five percent (85%) of the Fair Market Value per share of Common Stock on the issue date. However, the purchase price per share of Common Stock issued to a 10% Shareholder shall not be less than one hundred and ten percent (110%) of such Fair Market Value.

2. Subject to the provisions of Section I of Article Four, shares of Common Stock may be issued under the Stock Issuance Program for any of the following items of consideration which the Plan Administrator may deem appropriate in each individual instance:

(i) cash or check made payable to the Corporation, or

(ii) past services rendered to the Corporation (or any Parent or Subsidiary).

B. VESTING PROVISIONS.

1. Shares of Common Stock issued under the Stock Issuance Program may, in the discretion of the Plan Administrator, be fully and immediately vested upon issuance or may vest in one or more installments over the Participant's period of Service or upon attainment of specified performance objectives. However, the Plan Administrator may not impose a vesting schedule upon any stock issuance effected under the Stock Issuance Program which is more restrictive than twenty percent (20%) per year vesting, with initial vesting to occur not later than one (1) year after the issuance date. Such limitation shall not apply to any Common Stock issuances made to the officers of the Corporation, non-employee Board members or independent consultants.

2. Any new, substituted or additional securities or other property (including money paid other than as a regular cash dividend) which the Participant may have the right to receive with respect to the Participant's unvested shares of Common Stock by reason of any stock dividend, stock split, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's

receipt of consideration shall be issued subject to (i) the same vesting requirements applicable to the Participant's unvested shares of Common Stock and (ii) such escrow arrangements as the Plan Administrator shall deem appropriate.

3. The Participant shall have full shareholder rights with respect to any shares of Common Stock issued to the Participant under the Stock Issuance Program, whether or not the Participant's interest in those shares is vested. Accordingly, the Participant shall have the right to vote such shares and to receive any regular cash dividends paid on such shares.

4. Should the Participant cease to remain in Service while holding one or more unvested shares of Common Stock issued under the Stock Issuance Program or should the performance objectives not be attained with respect to one or more such unvested shares of Common Stock, then those shares shall be immediately surrendered to the Corporation for cancellation, and the Participant shall have no further shareholder rights with respect to those shares. To the extent the surrendered shares were previously issued to the Participant for consideration paid in cash or cash equivalent (including the Participant's purchase-money indebtedness), the Corporation shall repay to the Participant the cash consideration paid for the surrendered shares and shall cancel the unpaid principal balance of any outstanding purchase-money note of the Participant attributable to such surrendered shares.

5. The Plan Administrator may in its discretion waive the surrender and cancellation of one or more unvested shares of Common Stock (or other assets attributable thereto) which would otherwise occur upon the non-completion of the vesting schedule applicable to those shares. Such waiver shall result in the immediate vesting of the Participant's interest in the shares of Common Stock as to which the waiver applies. Such waiver may be effected at any time, whether before or after the Participant's cessation of Service or the attainment or non-attainment of the applicable performance objectives.

C. FIRST REFUSAL RIGHTS. Until such time as the Common Stock is first registered under Section 12 of the 1934 Act, the Corporation shall have the right of first refusal with respect to any proposed disposition by the Participant (or any successor in interest) of any shares of Common Stock issued under the Stock Issuance Program. Such right of first refusal shall be exercisable in accordance with the terms established by the Plan Administrator and set forth in the document evidencing such right.

II. CORPORATE TRANSACTION

A. Upon the occurrence of a Corporate Transaction, all outstanding repurchase rights under the Stock Issuance Program shall terminate automatically, and the shares of Common Stock subject to those terminated rights shall immediately vest in full, except to the extent: (i) those repurchase rights are assigned to the successor corporation (or parent thereof) in connection with such Corporate Transaction or (ii) such accelerated vesting is precluded by other limitations imposed by the Plan Administrator at the time the repurchase right is issued.

B. The Plan Administrator shall have the discretionary authority, exercisable either at the time the unvested shares are issued or any time while the Corporation's repurchase rights with respect to those shares remain outstanding, to provide that those rights shall automatically terminate on an accelerated basis, and the shares of Common Stock subject to those terminated rights shall immediately vest, in the event the Participant's Service should subsequently terminate by reason of an Involuntary Termination within a designated period (not to exceed twenty-four (24) months) following the effective date of any Corporate Transaction in which those repurchase rights are assigned to the successor corporation (or parent thereof).

III. SHARE ESCROW/LEGENDS

Unvested shares may, in the Plan Administrator's discretion, be held in escrow by the Corporation until the Participant's interest in such shares vests or may be issued directly to the Participant with restrictive legends on the certificates evidencing those unvested shares.

ARTICLE FOUR

MISCELLANEOUS

I. FINANCING

The Plan Administrator may permit any Optionee or Participant to pay the option exercise price under the Option Grant Program or the purchase price for shares issued under the Stock Issuance Program by delivering a full-recourse, interest bearing promissory note payable in one or more installments and secured by the purchased shares. However, any promissory note delivered by a consultant must be secured by collateral in addition to the purchased shares of Common Stock. The terms of any such promissory note (including the interest rate and the terms of repayment) shall be established by the Plan Administrator in its sole discretion. In no event may the maximum credit available to the Optionee or Participant exceed the sum of (i) the aggregate option exercise price or purchase price payable for the purchased shares (less the par value of those shares) plus (ii) any Federal, state and local income and employment tax liability incurred by the Optionee or the Participant in connection with the option exercise or share purchase.

II. EFFECTIVE DATE AND TERM OF PLAN

A. The Plan shall become effective when adopted by the Board, but no option granted under the Plan may be exercised, and no shares shall be issued under the Plan, until the Plan is approved by the Corporation's shareholders. If such shareholder approval is not obtained within twelve (12) months after the date of the Board's adoption of the Plan, then all options previously granted under the Plan shall terminate and cease to be outstanding, and no further options shall be granted and no shares shall be issued under the Plan. Subject to such limitation, the Plan Administrator may grant options and issue shares under the Plan at any time after the effective date of the Plan and before the date fixed herein for termination of the Plan.

B. The Plan shall terminate upon the earliest of (i) the expiration of the ten (10)-year period measured from the date the Plan is adopted by the Board, (ii) the date on which all shares available for issuance under the Plan shall have been issued as vested shares or (iii) the termination of all outstanding options in connection with a Corporate Transaction. All options and unvested stock issuances outstanding at the time of a clause (i) termination event shall continue to have full force and effect in accordance with the provisions of the documents evidencing those options or issuances.

III. AMENDMENT OF THE PLAN

A. The Board shall have complete and exclusive power and authority to amend or modify the Plan in any or all respects. However, no such amendment or modification shall adversely affect the rights and obligations with respect to options or unvested stock issuances at the time outstanding under the Plan unless the Optionee or the Participant consents to such amendment or modification. In addition, certain amendments may require shareholder approval pursuant to applicable laws and regulations.

B. Options may be granted under the Option Grant Program and shares may be issued under the Stock Issuance Program which are in each instance in excess of the number of shares of Common Stock then available for issuance under the Plan, provided any excess shares actually issued under those programs shall be held in escrow until there is obtained shareholder approval of an amendment sufficiently increasing the number of shares of Common Stock available for issuance under the Plan. If such shareholder approval is not obtained within twelve (12) months after the date the first such excess grants or issuances are made, then (i) any unexercised options granted on the basis of such excess shares shall terminate and cease to be outstanding and (ii) the Corporation shall promptly refund to the Optionees and the Participants the exercise or purchase price paid for any excess shares issued under the Plan and held in escrow, together with interest (at the applicable Short Term Federal Rate) for the period the shares were held in escrow, and such shares shall thereupon be automatically cancelled and cease to be outstanding.

IV. USE OF PROCEEDS

Any cash proceeds received by the Corporation from the sale of shares of Common Stock under the Plan shall be used for general corporate purposes.

V. WITHHOLDING

The Corporation's obligation to deliver shares of Common Stock upon the exercise of any options granted under the Plan or upon the direct issuance or vesting of any shares issued under the Plan shall be subject to the satisfaction of all applicable Federal, state and local income and employment tax withholding requirements.

VI. REGULATORY APPROVALS

The implementation of the Plan, the granting of any options under the Plan and the issuance of any shares of Common Stock (i) upon the exercise of any option or (ii) under the Stock Issuance Program shall be subject to the Corporation's procurement of all approvals and permits required by regulatory authorities having jurisdiction over the Plan, the options granted under it and the shares of Common Stock issued pursuant to it.

VII. NO EMPLOYMENT OR SERVICE RIGHTS

Nothing in the Plan shall confer upon the Optionee or the Participant any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Corporation (or any Parent or Subsidiary employing or retaining such person) or of the Optionee or the Participant, which rights are hereby expressly reserved by each, to terminate such person's Service at any time for any reason, with or without cause.

VIII. FINANCIAL REPORTS

The Corporation shall deliver a balance sheet and an income statement at least annually to each individual holding an outstanding option under the Plan, unless such individual is a key Employee whose duties in connection with the Corporation (or any Parent or Subsidiary) assure such individual access to equivalent information.

APPENDIX

The following definitions shall be in effect under the Plan:

A. BOARD shall mean the Corporation's Board of Directors.

B. CODE shall mean the Internal Revenue Code of 1986, as amended.

C. COMMITTEE shall mean a committee of two (2) or more Board members appointed by the Board to exercise one or more administrative functions under the Plan.

D. COMMON STOCK shall mean the Corporation's common stock.

E. CORPORATE TRANSACTION shall mean either of the following shareholder-approved transactions to which the Corporation is a party:

(i) a merger or consolidation in which securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such transaction, or

(ii) the sale, transfer or other disposition of all or substantially all of the Corporation's assets in complete liquidation or dissolution of the Corporation.

F. CORPORATION shall mean Cyras Systems, Inc., a Delaware corporation, and any successor corporation to all or substantially all of the assets or voting stock of Cyras Systems, Inc., which shall by appropriate action adopt the Plan.

G. DISABILITY shall mean the inability of the Optionee or the Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment and shall be determined by the Plan Administrator on the basis of such medical evidence as the Plan Administrator deems warranted under the circumstances.

H. EMPLOYEE shall mean an individual who is in the employ of the Corporation (or any Parent or Subsidiary), subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance.

I. EXERCISE DATE shall mean the date on which the Corporation shall have received written notice of the option exercise.

J. FAIR MARKET VALUE per share of Common Stock on any relevant date shall be determined in accordance with the following provisions:

(i) If the Common Stock is at the time traded on the Nasdaq National Market, then the Fair Market Value shall be the closing selling price per share of Common Stock on the date in question, as such price is reported by the National Association of Securities Dealers on the Nasdaq National Market. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

(ii) If the Common Stock is at the time listed on any Stock Exchange, then the Fair Market Value shall be the closing selling price per share of Common Stock on the date in question on the Stock Exchange determined by the Plan Administrator to be the primary market for the Common Stock, as such price is officially quoted in the composite tape of transactions on such exchange. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

(iii) If the Common Stock is at the time neither listed on any Stock Exchange nor traded on the Nasdaq National Market, then the Fair Market Value shall be determined by the Plan Administrator after taking into account such factors as the Plan Administrator shall deem appropriate.

K. INCENTIVE OPTION shall mean an option which satisfies the requirements of Code Section 422.

L. INVOLUNTARY TERMINATION shall mean the termination of the Service of any individual which occurs by reason of:

(i) such individual's involuntary dismissal or discharge by the Corporation for reasons other than Misconduct, or

(ii) such individual's voluntary resignation following (A) a change in his or her position with the Corporation which materially reduces his or her duties and responsibilities or the level of management to which he or she reports, (B) a reduction in his or her level of compensation (including base salary, fringe benefits and target bonuses under any corporate-performance based bonus or incentive programs) by more than fifteen percent (15%) or (C) a relocation of such individual's place of employment by more than fifty (50) miles, provided and only if such change, reduction or relocation is effected without the individual's consent.

M. MISCONDUCT shall mean the commission of any act of fraud, embezzlement or dishonesty by the Optionee or Participant, any unauthorized use or disclosure by such person of confidential information or trade secrets of the Corporation (or any Parent or Subsidiary), or any other intentional misconduct by such person adversely affecting the business or affairs of the Corporation (or any Parent or Subsidiary) in a material manner. The foregoing definition shall not be deemed to be inclusive of all the acts or omissions which the Corporation (or any Parent or Subsidiary) may consider as grounds for the dismissal or discharge of any Optionee, Participant or other person in the Service of the Corporation (or any Parent or Subsidiary).

N. 1934 ACT shall mean the Securities Exchange Act of 1934, as amended.

O. NON-STATUTORY OPTION shall mean an option not intended to satisfy the requirements of Code Section 422.

P. OPTION GRANT PROGRAM shall mean the option grant program in effect under the Plan.

Q. OPTIONEE shall mean any person to whom an option is granted under the Plan.

R. PARENT shall mean any corporation (other than the Corporation) in an unbroken chain of corporations ending with the Corporation, provided each corporation in the unbroken chain (other than the Corporation) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

S. PARTICIPANT shall mean any person who is issued shares of Common Stock under the Stock Issuance Program.

T. PLAN shall mean the Corporation's 1998 Stock Plan, as set forth in this document.

U. PLAN ADMINISTRATOR shall mean either the Board or the Committee acting in its capacity as administrator of the Plan.

V. SERVICE shall mean the provision of services to the Corporation (or any Parent or Subsidiary) by a person in the capacity of an Employee, a non-employee member of the board of directors or a consultant or independent advisor, except to the extent otherwise specifically provided in the documents evidencing the option grant.

W. STOCK EXCHANGE shall mean either the American Stock Exchange or the New York Stock Exchange.

X. STOCK ISSUANCE AGREEMENT shall mean the agreement entered into by the Corporation and the Participant at the time of issuance of shares of Common Stock under the Stock Issuance Program.

Y. STOCK ISSUANCE PROGRAM shall mean the stock issuance program in effect under the Plan.

Z. SUBSIDIARY shall mean any corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation, provided each corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

AA. 10% SHAREHOLDER shall mean the owner of stock (as determined under Code Section 424(d)) possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Corporation (or any Parent or Subsidiary).

CYRAS SYSTEMS, INC.
STOCK OPTION AGREEMENT

RECITALS

ARTICLE FIVE The Board has adopted the Plan for the purpose of retaining the services of selected Employees, non-employee members of the Board or the board of directors of any Parent or Subsidiary and consultants and other independent advisors in the service of the Corporation (or any Parent or Subsidiary).

ARTICLE SIX Optionee is to render valuable services to the Corporation (or a Parent or Subsidiary), and this Agreement is executed pursuant to, and is intended to carry out the purposes of, the Plan in connection with the Corporation's grant of an option to Optionee.

ARTICLE SEVEN All capitalized terms in this Agreement shall have the meaning assigned to them in the attached Appendix.

NOW, THEREFORE, it is hereby agreed as follows:

- I. Grant of Option. THE CORPORATION HEREBY GRANTS TO OPTIONEE, AS OF THE GRANT DATE, AN OPTION TO PURCHASE UP TO THE NUMBER OF OPTION SHARES SPECIFIED IN THE GRANT NOTICE. THE OPTION SHARES SHALL BE PURCHASABLE FROM TIME TO TIME DURING THE OPTION TERM SPECIFIED IN PARAGRAPH 2 AT THE EXERCISE PRICE.
- II. Option Term. THIS OPTION SHALL HAVE A TERM OF TEN (10) YEARS MEASURED FROM THE GRANT DATE AND SHALL ACCORDINGLY EXPIRE AT THE CLOSE OF BUSINESS ON THE EXPIRATION DATE, UNLESS SOONER TERMINATED IN ACCORDANCE WITH PARAGRAPH 5 OR 6.
- III. Limited Transferability. DURING OPTIONEE'S LIFETIME, THIS OPTION SHALL BE EXERCISABLE ONLY BY OPTIONEE AND SHALL NOT BE ASSIGNABLE OR TRANSFERABLE OTHER THAN BY WILL OR BY THE LAWS OF DESCENT AND DISTRIBUTION FOLLOWING OPTIONEE'S DEATH.
- IV. Dates of Exercise. THIS OPTION SHALL BECOME EXERCISABLE FOR THE OPTION SHARES IN ONE OR MORE INSTALLMENTS AS SPECIFIED IN THE GRANT NOTICE. AS THE OPTION BECOMES EXERCISABLE FOR SUCH INSTALLMENTS, THOSE INSTALLMENTS SHALL ACCUMULATE, AND THE OPTION SHALL REMAIN EXERCISABLE FOR THE ACCUMULATED INSTALLMENTS UNTIL THE EXPIRATION DATE OR SOONER TERMINATION OF THE OPTION TERM UNDER PARAGRAPH 5 OR 6.
- V. Cessation of Service. THE OPTION TERM SPECIFIED IN PARAGRAPH 2 SHALL TERMINATE (AND THIS OPTION SHALL CEASE TO BE OUTSTANDING) PRIOR TO THE EXPIRATION DATE SHOULD ANY OF THE FOLLOWING PROVISIONS BECOME APPLICABLE:

A. should Optionee cease to remain in Service for any reason (other than death, Disability or Misconduct) while this option is outstanding, then Optionee shall have a period of three (3) months (commencing with the date of such cessation of Service) during which to

exercise this option, but in no event shall this option be exercisable at any time after the Expiration Date.

B. Should Optionee die while this option is outstanding, then the personal representative of Optionee's estate or the person or persons to whom the option is transferred pursuant to Optionee's will or in accordance with the laws of inheritance shall have the right to exercise this option. Such right shall lapse, and this option shall cease to be outstanding, upon the earlier of (i) the expiration of the twelve (12)-month period measured from the date of Optionee's death or (ii) the Expiration Date.

C. Should Optionee cease Service by reason of Disability while this option is outstanding, then Optionee shall have a period of twelve (12) months (commencing with the date of such cessation of Service) during which to exercise this option. In no event shall this option be exercisable at any time after the Expiration Date.

Note: Exercise of this option on a date later than three (3) months following cessation of Service due to Disability will result in loss of favorable Incentive Option treatment, unless such Disability constitutes Permanent Disability. In the event that Incentive Option treatment is not available, this option will be taxed as a Non-Statutory Option upon exercise.

D. During the limited period of post-Service exercisability, this option may not be exercised in the aggregate for more than the number of Option Shares in which Optionee is, at the time of Optionee's cessation of Service, vested pursuant to the Vesting Schedule specified in the Grant Notice or the special vesting acceleration provisions of Paragraph 6. Upon the expiration of such limited exercise period or (if earlier) upon the Expiration Date, this option shall terminate and cease to be outstanding for any vested Option Shares for which the option has not been exercised. To the extent Optionee is not vested in one or more Option Shares at the time of Optionee's cessation of Service, this option shall immediately terminate and cease to be outstanding with respect to those shares.

E. Should Optionee's Service be terminated for Misconduct, then this option shall terminate immediately and cease to remain outstanding.

VI. Accelerated Vesting.

A. In the event of any Corporate Transaction, the Option Shares at the time subject to this option but not otherwise vested shall automatically vest in full so that this option shall, immediately prior to the effective date of the Corporate Transaction, become exercisable for all of the Option Shares as fully-vested shares and may be exercised for any or all of those Option Shares as vested shares. However, the Option Shares shall NOT vest on such an accelerated basis if and to the extent: (i) this option is assumed by the successor corporation (or parent thereof) in the Corporate Transaction and the Corporation's repurchase rights with respect to the unvested Option Shares are assigned to such successor corporation (or parent thereof) or (ii) this option is to be replaced with a cash incentive program of the successor corporation which preserves the spread existing on the unvested Option Shares at the time of the Corporate Transaction (the excess of the Fair Market Value of those Option Shares over the Exercise Price payable for such shares) and provides for subsequent payout in accordance with the same Vesting Schedule applicable to those unvested Option Shares as set forth in the Grant Notice.

B. Immediately following the Corporate Transaction, this option shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof) in connection with the Corporate Transaction.

C. If this option is assumed in connection with a Corporate Transaction, then this option shall be appropriately adjusted, immediately after such Corporate Transaction, to apply to the number and class of securities which would have been issuable to Optionee in consummation of such Corporate Transaction had the option been exercised immediately prior to such Corporate Transaction, and appropriate adjustments shall also be made to the Exercise Price, provided the aggregate Exercise Price shall remain the same.

D. The Option Shares may also vest upon an accelerated basis in accordance with the terms and conditions of any special addendum attached to this Agreement.

E. This Agreement shall not in any way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

F. ADJUSTMENT IN OPTION SHARES. Should any change be made to the Common Stock by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration, appropriate adjustments shall be made to (i) the total number and/or class of securities subject to this option and (ii) the Exercise Price in order to reflect such change and thereby preclude a dilution or enlargement of benefits hereunder.

VII. Shareholder Rights. THE HOLDER OF THIS OPTION SHALL NOT HAVE ANY SHAREHOLDER RIGHTS WITH RESPECT TO THE OPTION SHARES UNTIL SUCH PERSON SHALL HAVE EXERCISED THE OPTION, PAID THE EXERCISE PRICE AND BECOME THE RECORD HOLDER OF THE PURCHASED SHARES.

VIII. Manner of Exercising Option.

A. In order to exercise this option with respect to all or any part of the Option Shares for which this option is at the time exercisable, Optionee (or any other person or persons exercising the option) must take the following actions:

1. Execute and deliver to the Corporation a Purchase Agreement for the Option Shares for which the option is exercised.

2. Pay the aggregate Exercise Price for the purchased shares in one or more of the following forms:

(i) cash or check made payable to the Corporation; or

(ii) a promissory note payable to the Corporation, but only to the extent authorized by the Plan Administrator in accordance with Paragraph 14.

Should the Common Stock be registered under Section 12 of the 1934 Act at the time the option is exercised, then the Exercise Price may also be paid as follows:

(iii) in shares of Common Stock held by Optionee (or any other person or persons exercising the option) for the requisite period necessary to avoid a charge to the Corporation's earnings for financial reporting purposes and valued at Fair Market Value on the Exercise Date; or

(iv) to the extent the option is exercised for vested Option Shares, through a special sale and remittance procedure pursuant to which Optionee (or any other person or persons exercising the option) shall concurrently provide irrevocable instructions (a) to a Corporation-designated brokerage firm to effect the immediate sale of the purchased shares and remit to the Corporation, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate Exercise Price payable for the purchased shares plus all applicable Federal, state and local income and employment taxes required to be withheld by the Corporation by reason of such exercise and (b) to the Corporation to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale.

Except to the extent the sale and remittance procedure is utilized in connection with the option exercise, payment of the Exercise Price must accompany the Purchase Agreement delivered to the Corporation in connection with the option exercise.

3. Furnish to the Corporation appropriate documentation that the person or persons exercising the option (if other than Optionee) have the right to exercise this option.

4. Execute and deliver to the Corporation such written representations as may be requested by the Corporation in order for it to comply with the applicable requirements of Federal and state securities laws.

5. Make appropriate arrangements with the Corporation (or Parent or Subsidiary employing or retaining Optionee) for the satisfaction of all Federal, state and local income and employment tax withholding requirements applicable to the option exercise.

B. As soon as practical after the Exercise Date, the Corporation shall issue to or on behalf of Optionee (or any other person or persons exercising this option) a certificate for the purchased Option Shares, with the appropriate legends affixed thereto.

C. In no event may this option be exercised for any fractional shares.

IX. REPURCHASE RIGHTS. ALL OPTION SHARES ACQUIRED UPON THE EXERCISE OF THIS OPTION SHALL BE SUBJECT TO CERTAIN RIGHTS OF THE CORPORATION AND ITS ASSIGNS TO REPURCHASE THOSE SHARES IN ACCORDANCE WITH THE TERMS SPECIFIED IN THE PURCHASE AGREEMENT.

X. Compliance with Laws and Regulations.

A. The exercise of this option and the issuance of the Option Shares upon such exercise shall be subject to compliance by the Corporation and Optionee with all applicable requirements of law relating thereto and with all applicable regulations of any stock exchange (or the Nasdaq National Market, if applicable) on which the Common Stock may be listed for trading at the time of such exercise and issuance.

B. The inability of the Corporation to obtain approval from any regulatory body having authority deemed by the Corporation to be necessary to the lawful issuance and sale of any Common Stock pursuant to this option shall relieve the Corporation of any liability with respect to the non-issuance or sale of the Common Stock as to which such approval shall not have been obtained. The Corporation, however, shall use its best efforts to obtain all such approvals.

C. SUCCESSORS AND ASSIGNS. Except to the extent otherwise provided in Paragraphs 3 and 6, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the Corporation and its successors and assigns and Optionee, Optionee's assigns and the legal representatives, heirs and legatees of Optionee's estate.

- XI. Notices. ANY NOTICE REQUIRED TO BE GIVEN OR DELIVERED TO THE CORPORATION UNDER THE TERMS OF THIS AGREEMENT SHALL BE IN WRITING AND ADDRESSED TO THE CORPORATION AT ITS PRINCIPAL CORPORATE OFFICES. ANY NOTICE REQUIRED TO BE GIVEN OR DELIVERED TO OPTIONEE SHALL BE IN WRITING AND ADDRESSED TO OPTIONEE AT THE ADDRESS INDICATED BELOW OPTIONEE'S SIGNATURE LINE ON THE GRANT NOTICE. ALL NOTICES SHALL BE DEEMED EFFECTIVE UPON PERSONAL DELIVERY OR UPON DEPOSIT IN THE U.S. MAIL, POSTAGE PREPAID AND PROPERLY ADDRESSED TO THE PARTY TO BE NOTIFIED.
- XII. Financing. THE PLAN ADMINISTRATOR MAY, IN ITS ABSOLUTE DISCRETION AND WITHOUT ANY OBLIGATION TO DO SO, PERMIT OPTIONEE TO PAY THE EXERCISE PRICE FOR THE PURCHASED OPTION SHARES BY DELIVERING A FULL-RECOURSE, INTEREST-BEARING PROMISSORY NOTE SECURED BY THOSE OPTION SHARES. THE PAYMENT SCHEDULE IN EFFECT FOR ANY SUCH PROMISSORY NOTE SHALL BE ESTABLISHED BY THE PLAN ADMINISTRATOR IN ITS SOLE DISCRETION.
- XIII. Construction. THIS AGREEMENT AND THE OPTION EVIDENCED HEREBY ARE MADE AND GRANTED PURSUANT TO THE PLAN AND ARE IN ALL RESPECTS LIMITED BY AND SUBJECT TO THE TERMS OF THE PLAN. ALL DECISIONS OF THE PLAN ADMINISTRATOR WITH RESPECT TO ANY QUESTION OR ISSUE ARISING UNDER THE PLAN OR THIS AGREEMENT SHALL BE CONCLUSIVE AND BINDING ON ALL PERSONS HAVING AN INTEREST IN THIS OPTION.
- XIV. Governing Law. THE INTERPRETATION, PERFORMANCE AND ENFORCEMENT OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA WITHOUT RESORT TO THAT STATE'S CONFLICT-OF-LAWS RULES.
- XV. Shareholder Approval. IF THE OPTION SHARES COVERED BY THIS AGREEMENT EXCEED, AS OF THE GRANT DATE, THE NUMBER OF SHARES OF COMMON STOCK WHICH MAY BE ISSUED UNDER THE PLAN AS LAST APPROVED BY THE SHAREHOLDERS, THEN THIS OPTION SHALL BE VOID WITH RESPECT TO SUCH EXCESS SHARES, UNLESS SHAREHOLDER APPROVAL OF AN AMENDMENT SUFFICIENTLY INCREASING THE NUMBER OF SHARES OF COMMON STOCK ISSUABLE UNDER THE PLAN IS OBTAINED IN ACCORDANCE WITH THE PROVISIONS OF THE PLAN.
- XVI. Additional Terms Applicable to an Incentive Option. IN THE EVENT THIS OPTION IS DESIGNATED AN INCENTIVE OPTION IN THE GRANT NOTICE, THE FOLLOWING TERMS AND CONDITIONS SHALL ALSO APPLY TO THE GRANT:

A. This option shall cease to qualify for favorable tax treatment as an Incentive Option if (and to the extent) this option is exercised for one or more Option Shares: (i) more

than three (3) months after the date Optionee ceases to be an Employee for any reason other than death or Permanent Disability or (ii) more than twelve (12) months after the date Optionee ceases to be an Employee by reason of Permanent Disability.

B. This option shall not become exercisable in the calendar year in which granted if (and to the extent) the aggregate Fair Market Value (determined at the Grant Date) of the Common Stock for which this option would otherwise first become exercisable in such calendar year would, when added to the aggregate value (determined as of the respective date or dates of grant) of the Common Stock and any other securities for which one or more other Incentive Options granted to Optionee prior to the Grant Date (whether under the Plan or any other option plan of the Corporation or any Parent or Subsidiary) first become exercisable during the same calendar year, exceed One Hundred Thousand Dollars (\$100,000) in the aggregate. To the extent the exercisability of this option is deferred by reason of the foregoing limitation, the deferred portion shall become exercisable in the first calendar year or years thereafter in which the One Hundred Thousand Dollar (\$100,000) limitation of this Paragraph 18(b) would not be contravened, but such deferral shall in all events end immediately prior to the effective date of a Corporate Transaction in which this option is not to be assumed, whereupon the option shall become immediately exercisable as a Non-Statutory Option for the deferred portion of the Option Shares.

C. Should Optionee hold, in addition to this option, one or more other options to purchase Common Stock which become exercisable for the first time in the same calendar year as this option, then the foregoing limitations on the exercisability of such options as Incentive Options shall be applied on the basis of the order in which such options are granted.

APPENDIX

The following definitions shall be in effect under the Agreement:

AGREEMENT shall mean this Stock Option Agreement.

BOARD shall mean the Corporation's Board of Directors.

CODE shall mean the Internal Revenue Code of 1986, as amended.

COMMON STOCK shall mean the Corporation's common stock.

CORPORATE TRANSACTION shall mean either of the following shareholder-approved transactions to which the Corporation is a party:

a merger or consolidation in which securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such transaction, or

the sale, transfer or other disposition of all or substantially all of the Corporation's assets in complete liquidation or dissolution of the Corporation.

CORPORATION shall mean Cyras Systems, Inc., a Delaware corporation

DISABILITY shall mean the inability of Optionee to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment and shall be determined by the Plan Administrator on the basis of such medical evidence as the Plan Administrator deems warranted under the circumstances. Disability shall be deemed to constitute PERMANENT DISABILITY in the event that such Disability is expected to result in death or has lasted or can be expected to last for a continuous period of twelve (12) months or more.

EMPLOYEE shall mean an individual who is in the employ of the Corporation (or any Parent or Subsidiary), subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance.

EXERCISE DATE shall mean the date on which the option shall have been exercised in accordance with Paragraph 9 of the Agreement.

EXERCISE PRICE shall mean the exercise price payable per Option Share as specified in the Grant Notice.

EXPIRATION DATE shall mean the date on which the option expires as specified in the Grant Notice.

FAIR MARKET VALUE per share of Common Stock on any relevant date shall be determined in accordance with the following provisions:

A-1.

If the Common Stock is at the time traded on the Nasdaq National Market, then the Fair Market Value shall be the closing selling price per share of Common Stock on the date in question, as the price is reported by the National Association of Securities Dealers on the Nasdaq National Market. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

If the Common Stock is at the time listed on any Stock Exchange, then the Fair Market Value shall be the closing selling price per share of Common Stock on the date in question on the Stock Exchange determined by the Plan Administrator to be the primary market for the Common Stock, as such price is officially quoted in the composite tape of transactions on such exchange. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

If the Common Stock is at the time neither listed on any Stock Exchange nor traded on the Nasdaq National Market, then the Fair Market Value shall be determined by the Plan Administrator after taking into account such factors as the Plan Administrator shall deem appropriate.

GRANT DATE shall mean the date of grant of the option as specified in the Grant Notice.

GRANT NOTICE shall mean the Notice of Grant of Stock Option accompanying the Agreement, pursuant to which Optionee has been informed of the basic terms of the option evidenced hereby.

INCENTIVE OPTION shall mean an option which satisfies the requirements of Code Section 422.

MISCONDUCT shall mean the commission of any act of fraud, embezzlement or dishonesty by Optionee, any unauthorized use or disclosure by Optionee of confidential information or trade secrets of the Corporation (or any Parent or Subsidiary), or any other intentional misconduct by Optionee adversely affecting the business or affairs of the Corporation (or any Parent or Subsidiary) in a material manner. The foregoing definition shall not be deemed to be inclusive of all the acts or omissions which the Corporation (or any Parent or Subsidiary) may consider as grounds for the dismissal or discharge of Optionee or any other individual in the Service of the Corporation (or any Parent or Subsidiary).

1934 ACT shall mean the Securities Exchange Act of 1934, as amended.

NON-STATUTORY OPTION shall mean an option not intended to satisfy the requirements of Code Section 422.

OPTION SHARES shall mean the number of shares of Common Stock subject to the option.

OPTIONEE shall mean the person to whom the option is granted as specified in the Grant Notice.

PARENT shall mean any corporation (other than the Corporation) in an unbroken chain of corporations ending with the Corporation, provided each corporation in the unbroken chain (other than the Corporation) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

PLAN shall mean the Corporation's 1998 Stock Plan.

PLAN ADMINISTRATOR shall mean either the Board or a committee of the Board acting in its capacity as administrator of the Plan.

PURCHASE AGREEMENT shall mean the stock purchase agreement in substantially the form of Exhibit B to the Grant Notice.

SERVICE shall mean the Optionee's performance of services for the Corporation (or any Parent or Subsidiary) in the capacity of an Employee, a non-employee member of the board of directors or an independent consultant.

STOCK EXCHANGE shall mean the American Stock Exchange or the New York Stock Exchange.

SUBSIDIARY shall mean any corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation, provided each corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

VESTING SCHEDULE shall mean the vesting schedule specified in the Grant Notice pursuant to which the Optionee is to vest in the Option Shares in a series of installments over his or her period of Service.

ADDENDUM
TO
STOCK OPTION AGREEMENT

The following provisions are hereby incorporated into, and are hereby made a part of, that certain Stock Option Agreement (the "Option Agreement") by and between Cyras Systems, Inc. (the "Corporation") and {{Optionee}} ("Optionee") evidencing the stock option (the "Option") granted on this date to Optionee under the terms of the Corporation's 1998 Stock Option/Stock Issuance Plan, and such provisions shall be effective immediately. All capitalized terms in this Addendum, to the extent not otherwise defined herein, shall have the meanings assigned to them in the Option Agreement.

INVOLUNTARY TERMINATION FOLLOWING
CORPORATE TRANSACTION

ARTICLE EIGHT To the extent the Option is, in connection with a Corporate Transaction, to be assumed in accordance with Paragraph 6 of the Option Agreement, none of the Option Shares shall vest on an accelerated basis upon the occurrence of that Corporate Transaction, and Optionee shall accordingly continue, over his or her period of Service following the Corporate Transaction, to vest in the Option Shares in one or more installments in accordance with the provisions of the Option Agreement. However, upon an Involuntary Termination of Optionee's Service within twenty-four (24) months following such Corporate Transaction, all the Option Shares at the time subject to the Option shall automatically vest in full on an accelerated basis so that the Option shall immediately become exercisable for all the Option Shares as fully-vested shares and may be exercised for any or all of those Option Shares as vested shares. The Option shall remain so exercisable until the earlier of (i) the Expiration Date or (ii) the expiration of the one (1)-year period measured from the date of the Involuntary Termination.

ARTICLE NINE For purposes of this Addendum, an INVOLUNTARY TERMINATION shall mean the termination of Optionee's Service by reason of:

- I. OPTIONEE'S INVOLUNTARY DISMISSAL OR DISCHARGE BY THE CORPORATION FOR REASONS OTHER THAN FOR MISCONDUCT, OR
- II. OPTIONEE'S VOLUNTARY RESIGNATION FOLLOWING (A) A CHANGE IN OPTIONEE'S POSITION WITH THE CORPORATION (OR PARENT OR SUBSIDIARY EMPLOYING OPTIONEE) WHICH MATERIALLY REDUCES OPTIONEE'S DUTIES AND RESPONSIBILITIES OR THE LEVEL OF MANAGEMENT TO WHICH HE OR SHE REPORTS, (B) A REDUCTION IN OPTIONEE'S LEVEL OF COMPENSATION (INCLUDING BASE SALARY, FRINGE BENEFITS AND TARGET BONUSES UNDER ANY CORPORATE-PERFORMANCE BASED INCENTIVE PROGRAMS) BY MORE THAN FIFTEEN PERCENT (15%) OR (C) A RELOCATION OF OPTIONEE'S PLACE OF EMPLOYMENT BY MORE THAN FIFTY (50) MILES, PROVIDED AND ONLY IF SUCH CHANGE, REDUCTION OR RELOCATION IS EFFECTED BY THE CORPORATION WITHOUT OPTIONEE'S CONSENT.

ARTICLE TEN The provisions of Paragraph 1 of this Addendum shall govern the period for which the Option is to remain exercisable following the Involuntary Termination of Optionee's Service within twenty-four (24) months after the Corporate Transaction and shall supersede any provisions to the contrary in Paragraph 5 of the Option Agreement. The provisions of this Addendum shall also supersede any provisions to the contrary in Paragraph 18 of the Option Agreement concerning the deferred exercisability of the Option.

IN WITNESS WHEREOF, Cyras Systems, Inc. has caused this Addendum to be executed by its duly-authorized officer as of the Option Grant Date specified below.

CYRAS SYSTEMS, INC.

By: _____

Title: _____

OPTION GRANT DATE: {{GRANTDATE}}

ADDENDUM
TO
STOCK PURCHASE AGREEMENT

The following provisions are hereby incorporated into, and are hereby made a part of, that certain Stock Purchase Agreement (the "Purchase Agreement") by and between Cyras Systems, Inc. (the "Corporation") and {{Optionee}} ("Optionee") evidencing the shares of Common Stock purchased on this date by Optionee pursuant to the option granted to him or her under the Corporation's 1998 Stock Option/Stock Issuance Plan, and such provisions shall be effective immediately. All capitalized terms in this Addendum, to the extent not otherwise defined herein, shall have the meanings assigned to such terms in the Purchase Agreement.

INVOLUNTARY TERMINATION FOLLOWING
CORPORATE TRANSACTION

ARTICLE ELEVEN To the extent the Repurchase Right is assigned to the successor corporation (or parent thereof) in connection with a Corporate Transaction, no accelerated vesting of the Purchased Shares shall occur upon such Corporate Transaction, and the Repurchase Right shall continue to remain in full force and effect in accordance with the provisions of the Purchase Agreement. Optionee shall, over his or her period of Service following the Corporate Transaction, continue to vest in the Purchased Shares in one or more installments in accordance with the provisions of the Purchase Agreement. However, upon an Involuntary Termination of Optionee's Service within twenty-four (24) months following the Corporate Transaction, the Repurchase Right shall terminate automatically, and all the Purchased Shares shall immediately vest in full at that time.

ARTICLE TWELVE For purposes of this Addendum, the following definitions shall be in effect:

An INVOLUNTARY TERMINATION shall mean the termination of Optionee's Service by reason of:

A-6.

A. Optionee's involuntary dismissal or discharge by the Corporation for reasons other than for Misconduct, or

B. Optionee's voluntary resignation following (A) a change in his or her position with the Corporation (or Parent or Subsidiary employing Optionee) which materially reduces Optionee's duties and responsibilities or the level of management to which he or she reports, (B) a reduction in Optionee's level of compensation (including base salary, fringe benefits and target bonuses under any corporate-performance based incentive programs) by more than fifteen percent (15%) or (C) a relocation of Optionee's place of employment by more than fifty (50) miles, provided and only if such change, reduction or relocation is effected by the Corporation without Optionee's consent.

MISCONDUCT shall mean the termination of Optionee's Service by reason of Optionee's commission of any act of fraud, embezzlement or dishonesty, any unauthorized use or disclosure by Optionee of confidential information or trade secrets of the Corporation (or any Parent or Subsidiary), or any other intentional misconduct by Optionee adversely affecting the business or affairs of the Corporation (or any Parent or Subsidiary) in a material manner. The foregoing definition shall not be deemed to be inclusive of all the acts or omissions which the Corporation (or any Parent or Subsidiary) may consider as grounds for the dismissal or discharge of Optionee or any other individual in the Service of the Corporation (or any Parent or Subsidiary).

IN WITNESS WHEREOF, Cyras Systems, Inc. has caused this Addendum to be executed by its duly-authorized officer.

CYRAS SYSTEMS, INC.

By: _____

Title: _____

CYRAS SYSTEMS, INC.

1998 STOCK PLAN

PLAN AMENDMENT

The Cyras Systems, Inc. 1998 Stock Plan is hereby amended, effective December 18, 2000 as follows:

1. Section III of Article Two Section III is hereby amended in its entirety to read as follows:

III. CORPORATE TRANSACTION

C. The shares subject to each option outstanding under the Plan at the time of a Corporate Transaction shall automatically vest so that each such option shall, immediately prior to the effective date of the Corporate Transaction, become exercisable for all of the shares of Common Stock at the time subject to that option and may be exercised for any or all of those shares as fully-vested shares of Common Stock. However, the shares subject to an outstanding option shall NOT vest on such an accelerated basis if and to the extent: (i) such option is to be assumed by the successor corporation (or parent thereof) in the Corporate Transaction and any repurchase rights of the Corporation with respect to the unvested option shares are concurrently to be assigned to such successor corporation (or parent thereof) or (ii) such option is to be replaced with a cash incentive program of the successor corporation which preserves the spread existing on the unvested option shares at the time of the Corporate Transaction and provides for subsequent payout in accordance with the same vesting schedule applicable to those unvested option shares or (iii) the acceleration of such option is subject to other terms or limitations imposed by the Plan Administrator at the time of the option grant. Notwithstanding the foregoing, if an outstanding option is assumed in accordance with clause (i) above or replaced with a cash incentive program in accordance with clause (ii) above in a Corporate Transaction, other than a Corporate Transaction by which the Corporation is acquired by CIENA Corporation, then the optionee holding that option shall immediately be credited with an additional twelve (12) months of Service for purposes of applying the vesting schedule in effect for the shares subject to the option, and the option shares which vest on the basis of such Service credit shall be deemed to be the option shares which would have otherwise last vested under that vesting schedule. The remaining option shares shall continue to vest in accordance with the installment provisions of the vesting schedule in effect for the option immediately prior to the Corporate Transaction. Such twelve (12)-month service credit, while not applicable to any Corporate Transaction by which the Corporation is acquired by CIENA Corporation, shall be in effect for any Corporate Transaction by which CIENA Corporation is acquired following its acquisition of the Corporation.

D. All outstanding repurchase rights shall also terminate automatically, and the shares of Common Stock subject to those terminated rights shall immediately vest in full, in the event of any Corporate Transaction, except to the extent: (i) those repurchase rights are assigned to the successor corporation (or parent thereof) in connection with such Corporate Transaction or (ii) such accelerated vesting is precluded by other terms or limitations imposed by the Plan Administrator at the time the repurchase right is issued. Notwithstanding the foregoing, if the Corporation's repurchase rights are to be assigned to the successor entity in such Corporate Transaction, other than the assignment of the repurchase rights to CIENA Corporation in connection with a Corporate Transaction by which the Corporation is acquired by CIENA Corporation, each holder of the shares subject to the assigned repurchase rights shall immediately be credited with an additional twelve (12) months of Service under the vesting schedule in effect for those shares. The unvested shares which vest on the basis of such Service credit shall be deemed to be the shares which would have otherwise last vested under that vesting schedule, and the remaining unvested shares shall continue to vest in accordance with installment provisions of the vesting schedule in effect for those shares immediately prior to the Corporate Transaction. Such twelve (12)-month service credit, while not applicable to any Corporate Transaction by which the Corporation is acquired by CIENA Corporation, shall be in effect for any Corporate Transaction by which CIENA Corporation is acquired following its acquisition of the Corporation.

E. Immediately following the consummation of the Corporate Transaction, all outstanding options shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof).

F. Each option which is assumed in connection with a Corporate Transaction shall be appropriately adjusted, immediately after such Corporate Transaction, to apply to the number and class of securities which would have been issuable to the Optionee in consummation of such Corporate Transaction, had the option been exercised immediately prior to such Corporate Transaction. Appropriate adjustments shall also be made to (i) the number and class of securities available for issuance under the Plan following the consummation of such Corporate Transaction and (ii) the exercise price payable per share under each outstanding option, provided the aggregate exercise price payable for such securities shall remain the same.

G. The Plan Administrator shall have the discretion, exercisable either at the time the option is granted or at any time while the option remains outstanding, to structure one or more options so that those options shall automatically accelerate and vest in full (and any repurchase rights of the Corporation with respect to the unvested shares subject to those options shall immediately terminate) upon the occurrence of a Corporate Transaction, whether or not those options are to be assumed in the Corporate Transaction.

H. The Plan Administrator shall also have full power and authority, exercisable either at the time the option is granted or at any time while the option remains outstanding, to structure such option so that the shares subject to that option will automatically vest on an accelerated basis should the Optionee's Service terminate by reason of an Involuntary Termination within a designated period (not to exceed twenty-four (24) months) following the effective date of any Corporate Transaction in which the option is assumed and the repurchase

rights applicable to those shares do not otherwise terminate. Any option so accelerated shall remain exercisable for the fully-vested option shares until the expiration or sooner termination of the option term. In addition, the Plan Administrator may provide that one or more of the Corporation's outstanding repurchase rights with respect to shares held by the Optionee at the time of such Involuntary Termination shall immediately terminate on an accelerated basis, and the shares subject to those terminated rights shall accordingly vest at that time.

I. The portion of any Incentive Option accelerated in connection with a Corporate Transaction shall remain exercisable as an Incentive Option only to the extent the applicable One Hundred Thousand Dollar limitation is not exceeded. To the extent such dollar limitation is exceeded, the accelerated portion of such option shall be exercisable as a Non-Statutory Option under the Federal tax laws.

J. The grant of options under the Plan shall in no way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

2. Article Three Section II is hereby amended in its entirety to read as follows:

II. CORPORATE TRANSACTION

A. Upon the occurrence of a Corporate Transaction, all outstanding repurchase rights under the Stock Issuance Program shall terminate automatically, and the shares of Common Stock subject to those terminated rights shall immediately vest in full, except to the extent: (i) those repurchase rights are assigned to the successor corporation (or parent thereof) in connection with such Corporate Transaction or (ii) such accelerated vesting is precluded by other limitations imposed by the Plan Administrator at the time the repurchase right is issued. Notwithstanding the foregoing, if the repurchase rights are to be assigned to the successor entity in such Corporate Transaction, other than the assignment of the repurchase rights to CIENA Corporation in connection with a Corporate Transaction by which the Corporation is acquired by CIENA Corporation, each holder of the shares subject to the assigned repurchase rights shall immediately be credited with an additional twelve (12) months of Service under the vesting schedule in effect for those shares. The unvested shares which vest on the basis of such Service credit shall be deemed to be the shares which would have otherwise last vested under that vesting schedule, and the remaining unvested shares shall continue to vest in accordance with installment provisions of the vesting schedule in effect for those shares immediately prior to the Corporate Transaction. Such twelve (12)-month service credit, while not applicable to any Corporate Transaction by which the Corporation is acquired by CIENA Corporation, shall be in effect for any Corporate Transaction by which CIENA Corporation is acquired following its acquisition of the Corporation.

B. The Plan Administrator shall have the discretionary authority, exercisable either at the time the unvested shares are issued or any time while the Corporation's repurchase rights with respect to those shares remain outstanding, to provide that those rights shall automatically terminate on an accelerated basis, and the shares of Common Stock subject to

those terminated rights shall immediately vest, in the event the Participant's Service should subsequently terminate by reason of an Involuntary Termination within a designated period (not to exceed twenty-four (24) months) following the effective date of any Corporate Transaction in which those repurchase rights are assigned to the successor corporation (or parent thereof).

3. Except as amended hereby, the 1998 Stock Option Plan shall continue in full force and effect.

IN WITNESS WHEREOF, Cyras Systems, Inc. has caused this Plan Amendment to be executed on its behalf by its duly authorized officer on this _____ day of _____, 2001.

Cyras Systems, Inc.

By _____

Title _____