

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 JULY 31, 1999

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 AUGUST 19, 1999
----- Common stock. \$.01 par value	----- 137,363,709

CIENA CORPORATION

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FORM 10-Q

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CIENA CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
 (IN THOUSANDS, EXCEPT PER SHARE DATA)
 (UNAUDITED)

	Quarter Ended		Nine Months Ended	
	July 31, 1998	July 31, 1999	July 31, 1998	July 31, 1999
Revenue	\$ 129,116	\$ 128,826	\$ 416,926	\$ 340,733
Cost of goods sold	70,431	79,361	193,326	216,377
Gross profit	58,685	49,465	223,600	124,356
Operating expenses:				
Research and development	21,965	28,402	51,196	74,714
Selling and marketing	12,937	16,839	34,019	43,539
General and administrative	4,186	5,433	12,927	16,318
Purchased research and development	--	--	9,503	--
Pirelli litigation	20,579	--	30,579	--
Merger related costs	2,017	10,768	2,017	13,021
Total operating expenses	61,684	61,442	140,241	147,592
Income (loss) from operations	(2,999)	(11,977)	83,359	(23,236)
Interest and other income, net	2,840	3,692	10,058	10,786
Interest expense	(71)	(200)	(242)	(410)
Income (loss) before income taxes	(230)	(8,485)	93,175	(12,860)
Provision (benefit) for income taxes	20	(2,928)	40,337	(4,437)
Net income (loss)	\$ (250)	\$ (5,557)	\$ 52,838	\$ (8,423)
Basic net income (loss) per common share	\$ (0.00)	\$ (0.04)	\$ 0.47	\$ (0.06)
Diluted net income (loss) per common share and dilutive potential common share	\$ (0.00)	\$ (0.04)	\$ 0.43	\$ (0.06)
Weighted average basic common shares outstanding	121,820	133,016	113,602	132,712
Weighted average basic common and dilutive potential common shares outstanding	121,820	133,016	124,130	132,712

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

CIENA CORPORATION
 CONSOLIDATED BALANCE SHEETS
 (IN THOUSANDS, EXCEPT SHARE DATA)
 (UNAUDITED)

	October 31, 1998	July 31, 1999
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 250,714	\$ 142,599
Marketable debt securities	15,993	155,657
Accounts receivable, net	85,472	103,156
Inventories, net	70,908	64,638
Deferred income taxes	16,421	19,324
Prepaid income taxes	11,688	--
Prepaid expenses and other	4,728	11,804
	-----	-----
Total current assets	455,924	497,178
Equipment, furniture and fixtures, net	125,767	128,333
Goodwill and other intangible assets, net	16,270	13,544
Other assets	4,848	5,842
	-----	-----
Total assets	\$ 602,809	\$ 644,897
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 27,893	\$ 30,467
Accrued liabilities	34,437	48,786
Income taxes payable	--	4,661
Deferred revenue	1,084	3,697
Other current obligations	1,205	1,164
	-----	-----
Total current liabilities	64,619	88,775
Deferred income taxes	34,125	36,766
Other long-term obligations	3,029	3,962
	-----	-----
Total liabilities	101,773	129,503
	-----	-----
Commitments and contingencies	--	--
Stockholders' equity:		
Preferred stock - par value \$.01; 20,000,000 shares authorized; zero shares issued and outstanding	--	--
Common stock - par value \$.01; 360,000,000 shares authorized; 134,605,491 and 137,263,120 shares issued and outstanding	1,346	1,373
Additional paid-in capital	328,821	351,029
Notes receivable from stockholders	(586)	(280)
Cumulative translation adjustment	(107)	133
Retained earnings	171,562	163,139
	-----	-----
Total stockholders' equity	501,036	515,394
	-----	-----
Total liabilities and stockholders' equity	\$ 602,809	\$ 644,897
	=====	=====

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

CIENA CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	Nine Months Ended July 31,	
	1998	1999
Cash flows from operating activities:		
Net income (loss)	\$ 52,838	\$ (8,423)
Adjustments to reconcile net income to net cash from operating activities:		
Non-cash charges from equity transactions	31	8,364
Amortization of premiums on marketable debt securities	362	100
Effect of translation adjustments	(60)	240
Purchased research and development	9,503	--
Depreciation and amortization	23,106	37,192
Provision for doubtful accounts	194	--
Provision for inventory excess and obsolescence	4,116	4,022
Provision for warranty and other contractual obligations	9,583	6,619
Changes in assets and liabilities:		
Increase in accounts receivable	(36,103)	(17,684)
Increase in prepaid expenses and other	(7,753)	(7,176)
(Increase)/decrease in prepaid income tax	(21,015)	11,688
(Increase)/decrease in inventories	(39,356)	2,248
Decrease/(increase) in deferred income tax asset	1,511	(2,903)
Increase in other assets	(8,520)	(994)
Increase in accounts payable and accruals	8,667	10,304
(Decrease)/increase in income taxes payable	(1,093)	4,661
Increase in deferred income tax liability	3,179	2,641
(Decrease)/increase in deferred revenue and other obligations	(2,399)	2,613
Net cash (used) provided by operating activities	(3,209)	53,512
Cash flows from investing activities:		
Additions to equipment, furniture and fixtures	(79,105)	(37,032)
Purchases of marketable debt securities	(90,008)	(235,770)
Maturities of marketable debt securities	61,876	96,106
Net cash paid for business combinations	(2,103)	--
Net cash used in investing activities	(109,340)	(176,696)
Cash flows from financing activities:		
Net proceeds from other obligations	235	892
Net proceeds from the issuance of common stock and warrants	34,035	7,369
Tax benefit related to exercise of stock warrants	25,481	6,405
(Borrowings)/repayment of notes receivable from stockholders	(163)	403
Net cash provided by financing activities	59,588	15,069
Net decrease in cash and cash equivalents	(52,961)	(108,115)
Cash and cash equivalents at beginning of period	273,286	250,714
Cash and cash equivalents at end of period	\$ 220,325	\$ 142,599

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

CIENA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(1) SIGNIFICANT ACCOUNTING POLICIES

Interim Financial Statements

The interim financial statements included herein for CIENA Corporation ("CIENA") have been prepared by CIENA, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, financial statements included in this report reflect all normal recurring adjustments which CIENA considers necessary for the fair presentation of the results of operations for the interim periods covered and of the financial position of CIENA 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, CIENA believes that the disclosures are adequate to understand the information presented. The operating results for interim periods are not necessarily indicative of the operating results for the entire year. These financial statements should be read in conjunction with CIENA's October 31, 1998 audited supplemental consolidated financial statements and notes thereto included in CIENA's Form 8-K filed on July 21, 1999.

Principles of Consolidation

The Company completed a merger with Omnia Communications, Inc. ("Omnia") a Delaware company headquartered in Marlborough, Massachusetts on July 1, 1999. The transaction constituted a tax-free reorganization and has been accounted for as a pooling of interests under Accounting Principles Board Opinion No. 16. Accordingly, all prior period consolidated financial statements presented have been restated to include the combined results of operations, financial position and cash flows of Omnia as though it had been a part of CIENA.

On March 31, 1999 the Company completed a merger with Lightera Networks, Inc. ("Lightera") a Delaware company headquartered in Cupertino, California. The transaction constituted a tax-free reorganization and has been accounted for as a pooling of interests under Accounting Principles Board Opinion No. 16. Accordingly, all prior period consolidated financial statements presented have been restated to include the combined results of operations, financial position and cash flows of Lightera as though it had been a part of CIENA.

Fiscal Year

The Company has a 52 or 53 week fiscal year which ends on the Saturday nearest to the last day of October in each year (October 31, 1998; November 1, 1997; and November 2, 1996). For purposes of financial statement presentation, each fiscal year is described as having ended on October 31. Fiscal 1998 and 1997 comprised 52 weeks and fiscal 1996 comprised 53 weeks. Omnia's fiscal year ends on December 31.

Since the fiscal years for CIENA and Omnia differ, the periods combined for the purposes of the consolidated financial statements are as follows:

CIENA
-----Omnia

Quarter ended July 31, 1998
 Nine months ended July 31, 1998

July 1, 1998 to September 30, 1998
 January 1, 1998 to September 30, 1998

The nine months ended July 31, 1999 contain two months of Omnia's financial results, which are also recorded in the quarter and fiscal year ending October 31, 1998. The net loss for these two months, November and December 1998 was \$1,621,000.

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 distributor sales where risks of ownership have not transferred, CIENA recognizes revenue when the product is shipped through to the end user.

(2) INVENTORIES

Inventories are comprised of the following (in thousands):

	October 31, 1998 -----	July 31, 1999 -----
Raw materials	\$ 43,268	\$ 36,184
Work-in-process	8,592	17,913
Finished goods	30,202	21,878
	-----	-----
	82,062	75,975
Less: reserve for excess and obsolescence	(11,154)	(11,337)
	-----	-----
	\$ 70,908	\$ 64,638
	=====	=====

(3) 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 July 31, -----	
	1998 -----	1999 -----
Net loss	\$ (250)	\$ (5,557)
	=====	=====
Weighted average shares-basic .	121,820	133,016
	=====	=====
Effect of dilutive securities:		
Restricted stock	--	--
	-----	-----
Employee stock options ...	--	--
	-----	-----
Weighted average shares-diluted	121,820	133,016
	=====	=====
Basic EPS	\$ (0.00)	\$ (0.04)
	=====	=====
Diluted EPS	\$ (0.00)	\$ (0.04)
	=====	=====

	Nine months ended July 31,	
	1998	1999
Net Income (loss)	\$ 52,838	\$ (8,423)
Weighted average shares-basic	113,602	132,712
Effect of dilutive securities:		
Restricted stock	3,953	--
Employee stock options	6,575	--
Weighted average shares-diluted.....	124,130	132,712
Basic EPS	\$ 0.47	\$ (0.06)
Diluted EPS	\$ 0.43	\$ (0.06)

Approximately 10,963,000 and 12,202,000 options and restricted stock were outstanding during the quarters ended July 31, 1998 and July 31, 1999, respectively, but were not included in the computation of the diluted EPS as the effect would be anti-dilutive.

Stock options to purchase 268,000 shares of common stock were not included in the computation of diluted EPS for the nine months ended July 31, 1998 because the options exercise price was greater than the average market price of common shares during the period. Approximately 11,734,000 options and restricted stock were outstanding during nine months ended July 31, 1999, but were not included in the computation of the diluted EPS as the effect would be anti-dilutive.

(4) COMPREHENSIVE INCOME

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130 (SFAS No.130), "Comprehensive Income". SFAS No.130 became effective for CIENA's fiscal year 1999. SFAS No. 130 establishes new rules for the reporting and display of comprehensive income and its components SFAS No. 130 requires that changes in the amounts of certain items, including foreign currency translation adjustments and gains and losses on certain securities be shown in the financial statements. CIENA's accumulated other comprehensive income is comprised entirely of accumulated foreign currency translation adjustments and is shown as a separate amount on CIENA's Consolidated Balance Sheets. During the third quarter of fiscal 1998 and 1999, total comprehensive income (loss), which includes net income (loss) and changes in foreign currency translation adjustments, amounted to (\$286,000) and (\$5,445,000) of comprehensive loss, respectively. During the nine months ended July 31, 1998 and 1999, total comprehensive income (loss), which includes net income (loss) and changes in foreign currency translation adjustments, amounted to \$52,778,000 and (\$8,183,000) of comprehensive income (loss), respectively.

(5) BUSINESS COMBINATIONS

Omnia

On July 1, 1999, the Company completed a merger with Omnia in a transaction valued at approximately \$483 million. Omnia is a telecommunications equipment supplier which focuses on developing solutions to allow public telephone network operators to offer services cost effectively over integrated metropolitan fiberoptic access and transport networks. Under the terms of the merger, the Company acquired all of the outstanding shares and assumed the stock options of Omnia in exchange for approximately 15.2 million shares of CIENA common stock and 0.8 million CIENA shares issuable upon exercise of stock options. The transaction constituted a tax-free reorganization and has been accounted for as a pooling of interests under Accounting Principles Board Opinion No. 16. Accordingly, all prior period consolidated financial statements presented have been restated to include the combined results of operations, financial position and cash flows of Omnia as though it had been a part of CIENA.

The following table shows the separate historical results of CIENA and Omnia for the periods prior to the consummation of the merger of the two entities. No financial information has been presented for the fiscal year ended 1996 as Omnia did not commence operations until June 1997. Omnia's fiscal year end is December 31. CIENA's results for the

years ended October 31, 1997 and 1998 include Omnia's financial results from June 3, 1997 (date of inception) to December 31, 1997 and January 1, 1998 to December 31, 1998, respectively.

	Year Ended October 31,		Nine Months Ended July 31,	
	1997	1998	1998	1999
	(in thousands)		(in thousands)	
Revenues:				
CIENA	\$ 413,215	\$ 508,087	\$ 416,960	\$ 340,773
Omnia	-	-	-	-
Intercompany elimination's	-	-	-	-
Consolidated revenues	\$ 413,215	\$ 508,087	\$ 416,926	\$ 340,733
Net Income (loss):				
CIENA	\$ 115,967	\$ 51,113	\$ 56,133	\$ (1,020)
Omnia	(399)	(5,413)	(3,295)	(7,403)
Consolidated net income	\$ 115,568	\$ 45,700	\$ 52,838	\$ (8,423)

Lightera

On March 31, 1999 the Company completed a merger with Lightera in a transaction valued at approximately \$459 million. Lightera is a developer of carrier class optical core switches for fiberoptic communications networks. Under the terms of the merger agreement, the Company acquired all of the outstanding shares and assumed outstanding stock options and warrants of Lightera in exchange for approximately 17.5 million shares of CIENA common stock and 2.9 million CIENA shares issuable upon exercise of stock options and warrants. The transaction constituted a tax-free reorganization and has been accounted for as a pooling of interests under Accounting Principles Board Opinion No. 16. Accordingly, all prior period consolidated financial statements presented have been restated to include the combined results of operations, financial position and cash flows of Lightera as though it had been a part of CIENA.

The following table shows the separate historical results of CIENA and Lightera for the periods prior to the consummation of the merger of the two entities. No financial information has been presented for the fiscal years ended 1997 and 1996 as Lightera did not commence operations until April 1998.

	Year Ended October 31, 1998	Six Months Ended April 30, 1999
	(in thousands)	
Revenues:		
CIENA	\$ 508,087	\$ 211,907
Lightera	-	-
Intercompany eliminations	-	-
Consolidated revenues	\$ 508,087	\$ 211,907
Net Income (loss):		
CIENA	\$ 53,194	\$ 8,046
Lightera	(2,081)	(6,169)
Consolidated net income	\$ 51,113	\$ 1,877

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 below under the heading "Risk Factors" a further discussion of certain of those risks as they relate to the period covered by this report, CIENA's near term outlook with respect thereto, and the forward-looking statements set forth herein.

OVERVIEW

CIENA Corporation is a market leader of open architecture, optical networking systems leveraging the bandwidth enhancing abilities of dense wavelength division multiplexing ("DWDM") technology. In conjunction with the agreements to acquire Lightera Networks, Inc. ("Lightera"), a Delaware company headquartered in Cupertino, California, and Omnia Communications, Inc. ("Omnia"), a Delaware company headquartered in Marlborough, Massachusetts, CIENA announced its LightWorks(TM) Initiative, CIENA's vision of how to change the fundamental economics of optical telecommunication service provider networks. The eventual addition of Lightera's and Omnia's products to CIENA's product suite will make it possible for CIENA to offer telecommunications service providers a comprehensive next-generation optical network architecture that dramatically reduces the total number of network elements, thereby lowering network costs. As a leader in the implementation of new technology in a rapidly evolving and often unpredictable industry, CIENA's quarterly operating results have varied and are expected to vary in the future. See "Risk Factors" for a detailed discussion of the many factors that have caused such variation in the past, and may cause similar variations in the future.

On July 1, 1999 the Company completed a merger with Omnia in a transaction valued at approximately \$483 million. Omnia is a telecommunications equipment supplier which focuses on developing solutions to allow public telephone network operators to offer services cost effectively over integrated metropolitan fiberoptic access and transport networks. Under the terms of the agreement, the Company acquired all of the outstanding shares and assumed the stock options of Omnia in exchange for approximately 15.2 million shares of CIENA common stock and 0.8 million CIENA shares issuable upon exercise of stock options. The transaction constituted a tax-free reorganization and has been accounted for as a pooling of interests under Accounting Principles Board Opinion No. 16. Accordingly, all prior period consolidated financial statements presented have been restated to include the combined results of operations, financial position and cash flows of Omnia as though it had been a part of CIENA.

On March 31, 1999 the Company completed a merger with Lightera in a transaction valued at approximately \$459 million. Lightera is a developer of carrier class optical core switches for fiberoptic communications networks. Under the terms of the agreement, the Company acquired all of the outstanding shares and assumed outstanding stock options and warrants of Lightera in exchange for approximately 17.5 million shares of CIENA common stock and 2.9 million CIENA shares issuable upon exercise of stock options and warrants. The transaction constituted a tax-free reorganization and has been accounted for as a pooling of interests under Accounting Principles Board Opinion No. 16. Accordingly, all prior period consolidated financial statements presented have been restated to include the combined results of operations, financial position and cash flows of Lightera as though it had been a part of CIENA.

On August 3, 1999, CIENA announced that the Omnia AXR 500 multi-service transport platform had been integrated into the CIENA LightWorks architecture and that CIENA had renamed the product the MultiWave EdgeDirector(TM) 500. CIENA's MultiWave EdgeDirector 500 is a next generation multi-service transport platform that combines the functions of traditional transport equipment with advanced data networking. The MultiWave EdgeDirector 500 utilizes packet and cell technology to enable service providers to cost effectively deliver traditional voice and new high-speed data services over a single optical network. Commercial availability of the MultiWave EdgeDirector 500 is expected in the third quarter of calendar 1999.

During the third quarter of fiscal 1999 both the MultiWave(R) Metro(TM), CIENA's system designed for use in metropolitan ring applications, and the MultiWave CoreStream(TM), CIENA's next generation long-distance optical transport system capable of 96-channel configuration at 2.5 gigabits per second, became available for commercial shipments. CIENA expects to have 10 gigabit per second transmission capability for its MultiWave CoreStream system in the second half of the calendar year.

CIENA intends to continue the development of the MultiWave CoreDirector(TM) product developed by Lightera. MultiWave CoreDirector is believed to be the world's first intelligent optical core switch and would reduce the cost of

deploying and operating telecommunication service provider networks. The MultiWave CoreDirector allows carriers to deliver a full range of transport services, without costly SONET/SDH multiplexers or inflexible "wavelength only" devices. We expect that field deployable units of the MultiWave CoreDirector will be available in the end of the first calendar quarter 2000.

CIENA has increased the number of its optical transport equipment customers from a total of ten during the nine months ended July 31, 1998 to twenty for the nine months ended July 31, 1999. This reflects CIENA's ongoing strategy in the face of aggressive price competition to continue to build market share at the cost of reduced margins. CIENA intends to preserve and enhance its market leadership and eventually build on its installed base with new and additional products. While this gross margin pressure continues, CIENA believes that its product and service quality, manufacturing experience, and proven track record of delivery will enable it to be successful while it concentrates on efforts to reduce product costs and maximize production efficiencies. As a result of these cost reduction and production efficiency efforts to date CIENA's gross margin as a percentage of revenue has increased from 36.1% in the second quarter of fiscal 1999 to 38.4% in the third quarter of fiscal 1999.

Pursuit of these strategies, in conjunction with increased investments in research and development, selling, marketing, and customer service activities, will likely limit CIENA's operating profitability over the remaining three months of fiscal 1999. CIENA intends to continue to pursue new or complementary technologies either through ongoing internal development or by acquisition in order to further broaden CIENA's product line.

As of July 31, 1999 CIENA employed 1,821 people, which includes the 145 people added as a result of CIENA's acquisitions of Lightera and Omnia. This was an increase of 439 people over the 1,382 CIENA employees on October 31, 1998.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JULY 31, 1998 COMPARED TO THREE MONTHS ENDED JULY 31, 1999

REVENUE. CIENA recognized \$129.1 million and \$128.8 million in revenue for the third quarters ended July 31, 1998 and 1999, respectively. The approximate \$0.3 million or 0.2% decrease in revenues in the third fiscal quarter 1999 compared to the third fiscal quarter 1998 was largely the result of reduced selling prices. CIENA recorded revenues recognized from eighteen optical transport equipment customers in the quarter ended July 31, 1999, as compared to ten such customers in the same quarter of the prior year. Additionally, during the quarter ended July 31, 1999, each of three optical transport equipment customers accounted for at least 10% or more of CIENA's quarterly revenue and combined accounted for 58.1% of CIENA's quarterly revenue. This compares to the quarter ended July 31, 1998 where each of two customers accounted for at least 10% or more of CIENA's quarterly revenue and combined accounted for approximately 72.2% of CIENA's quarterly revenue. Revenues derived from foreign sales accounted for approximately 25.3% and 40.3% of CIENA's revenues during the third quarter ended July 31, 1998 and 1999, respectively. The relative increase in foreign sales reflects an increase in sales to several new customers.

Revenues in CIENA's third fiscal quarter 1998 and 1999 were both largely attributed to sales of CIENA's MultiWave Sentry(TM) 4000 systems. Also contributing to CIENA's third fiscal quarter 1999 revenues were sales of CIENA's 96 channel Multiwave CoreStream systems. The Multiwave CoreStream did not begin commercial shipments until the third fiscal quarter of 1999. Revenues derived from engineering, furnishing and installation services as a percentage of total revenue were approximately 8.5% and 12.4% for the third fiscal quarter 1998 and 1999, respectively.

CIENA expects revenue in the near term to be largely dependent upon sales to existing customers and to be derived primarily from sales of MultiWave Sentry 4000, MultiWave CoreStream, products using 10 gigabit per second transmission capability, and MultiWave Metro. There are material risks associated with CIENA's dependence on these customers, as well as the successful ramping up of the 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 \$58.7 million and \$49.5 million for

the third quarters ended July 31, 1998 and 1999, respectively. The approximate \$9.2 million or 15.7% decrease in gross profit in the third fiscal quarter 1999 compared to the third fiscal quarter 1998 was the result of decreased selling prices in the third quarter 1999 compared to third quarter 1998. Gross margin as a percentage of revenues was 45.5% and 38.4% for the third fiscal quarters 1998 and 1999, respectively. The decrease in gross margin percentage for the third fiscal quarter 1999 compared to the third quarter 1998 was largely attributable to aggressive price competition resulting in significantly lower selling prices for optical transport systems.

CIENA's gross margins may be affected by a number of factors, including continued competitive market pricing, manufacturing volumes and efficiencies, and fluctuations in component costs. During the remainder of fiscal 1999, CIENA expects to face continued pressure on gross margins, primarily as a result of substantial price discounting by competitors seeking to acquire market share. CIENA will continue to concentrate on efforts to reduce product costs and maximize production efficiencies and, if successful in these efforts, may be able to improve gross margins in the future. See "Risk Factors."

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses were \$22.0 million and \$28.4 million for the third quarters ended July 31, 1998 and 1999, respectively. During the third fiscal quarters 1998 and 1999, research and development expenses were 17.0% and 22.0% of revenue, respectively. The approximate \$6.4 million or 29.3% increase in research and development expenses in the third fiscal quarter 1999 compared to the third quarter 1998 was the result of increases in staffing levels, prototype materials, utilization of outside consultants, facility costs and depreciation expense. CIENA expects that its research and development expenditures will continue to increase during the remainder of fiscal year 1999 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. CIENA expenses research and development costs as incurred.

SELLING AND MARKETING EXPENSES. Selling and marketing expenses were \$12.9 million and \$16.8 million for the third quarters ended July 31, 1998 and 1999, respectively. During the third fiscal quarters 1998 and 1999, selling and marketing expenses were 10.0% and 13.1% of revenue, respectively. The approximate \$3.9 million or 30.2% increase in selling and marketing expenses in the third fiscal quarter 1999 compared to the third fiscal quarter 1998 was primarily the result of increased staffing levels in the areas of sales, technical assistance and field support. Increases in costs for tradeshow, advertising and depreciation also contributed the comparable quarter to quarter selling and marketing expense increase. CIENA anticipates that its selling and marketing expenses will increase during the remainder of fiscal year 1999 as additional personnel are hired and offices are opened, particularly in support of international market development, to allow CIENA to pursue new market opportunities.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses were \$4.2 million and \$5.4 million for the third quarters ended July 31, 1998 and 1999, respectively. During the third fiscal quarters 1998 and 1999, general and administrative expenses were 3.2% and 4.2% of revenue, respectively. The approximate \$1.2 million or 29.8% increase in general and administrative expenses from the third quarter 1998 compared to the third quarter 1999 was primarily the result of increased staffing levels, depreciation and facility costs. CIENA believes that its general and administrative expenses for the remainder of fiscal 1999 will increase due to the expansion of CIENA's administrative staff required to support its expanding operations in Cupertino, California, Marlborough, Massachusetts and London, England.

PIRELLI LITIGATION. The Pirelli litigation charge of \$20.6 million in the third fiscal quarter 1998 was attributable to a \$30.0 million payment made to Pirelli during third fiscal quarter 1998 and to additional other legal and related costs incurred in connection with the settlement of this litigation. These charges were partially offset by accrued legal and related costs associated with this litigation.

MERGER RELATED COSTS. The merger costs for the third fiscal quarter 1998 of \$2.0 million were costs related to the contemplated merger between CIENA and Tellabs. The merger costs for the third quarter 1999 of \$10.8 million were costs related to CIENA's acquisition of Omnia. These costs include an \$8.1 million non-cash charge for the acceleration of warrants based upon CIENA's common stock price on June 30, 1999 and \$2.7 million for fees, legal and accounting services and other integration costs. The warrants were issued to one of Omnia's customers and became exercisable upon the consummation of the merger.

INTEREST AND OTHER INCOME (EXPENSE), NET. Interest income and other income (expense), net were \$2.8 million and \$3.7 million for the third quarters ended July 31, 1998 and 1999, respectively. The approximate \$0.9 million or 30.0% increase in interest income and other income (expense), net was attributable to higher invested cash balances.

PROVISION (BENEFIT) FOR INCOME TAXES. Tax expense for the third fiscal quarter 1998 was primarily attributable to State income taxes. CIENA's benefit for income taxes of \$2.9 million for third fiscal quarter 1999 was the result of recognizing the benefit of net operating losses. During the third fiscal quarter 1999, the benefit for income taxes was 34.5% of losses before income taxes.

NINE MONTHS ENDED JULY 31, 1998 COMPARED TO NINE MONTHS ENDED JULY 31, 1999

REVENUE. CIENA recognized \$416.9 million and \$340.7 million in revenue for the nine months ended July 31, 1998 and 1999, respectively. The approximate \$76.2 million or 18.3% decrease in revenues in the nine months ended July 31, 1999 compared to the nine months ended July 31, 1998 was largely the result of decreased selling prices. CIENA recognized revenues from twenty different optical transport equipment customers in the nine months ended July 31, 1999, as compared to ten such customers in the same nine months of the prior year. Additionally, during the nine months ended July 31, 1999, each of three optical transport equipment customers accounted for at least 10% or more of CIENA's revenue and combined accounted for 53.2% of CIENA's revenue. This compares to the nine months ended July 31, 1998 where one customer accounted for at least 10% or more of CIENA's revenue and in total accounted for approximately 59.6% of CIENA's revenue. Revenues derived from foreign sales accounted for approximately 18.1% and 36.7% of CIENA's revenues during the nine months ended July 31, 1998 and 1999, respectively. The increase in foreign sales reflects an increase in sales to new customers.

Revenues during CIENA's nine months ended July 31, 1998 were largely attributable to both sales of MultiWave Sentry and MultiWave Sentry 4000 systems. Revenues during CIENA's nine months ended July 31, 1999 were largely attributed to sales of CIENA's MultiWave Sentry 4000 systems. Revenues derived from engineering, furnishing and installation services as a percentage of total revenue were approximately 8.8% and 12.3% for the nine months ended July 31, 1998 and 1999, respectively.

GROSS PROFIT. Gross profits were \$223.6 million and \$124.4 million for the nine months ended July 31, 1998 and 1999, respectively. The approximate \$99.2 million or 44.4% decrease in gross profit in the first nine months of 1999 compared to the first nine months of 1998 was the result of decreased revenues for those periods. Gross margin as a percentage of revenues was 53.6% and 36.5% for the first nine months of fiscal 1998 and 1999, respectively. The decrease in gross margin percentage for the first nine months of fiscal 1999 compared to the first nine months of fiscal 1998 was largely attributable to aggressive price competition resulting in lower selling prices for MultiWave optical transport systems.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses were \$51.2 million and \$74.7 million for the nine months ended July 31, 1998 and 1999, respectively. During the first nine months of fiscal 1998 and 1999, research and development expenses were 12.3% and 21.9% of revenue, respectively. The approximate \$23.5 million or 45.9% increase in research and development expenses in the first nine months of fiscal 1999 compared to the first nine months of fiscal 1998 was the result of increases in staffing levels, depreciation, utilization of outside consultants for certain development efforts and higher costs of test equipment used to develop and test new products and features. CIENA expenses research and development costs as incurred.

SELLING AND MARKETING EXPENSES. Selling and marketing expenses were \$34.0 million and \$43.5 million for the nine months ended July 31, 1998 and 1999, respectively. During the first nine months of 1998 and 1999, selling and marketing expenses were 8.2% and 12.8% of revenue, respectively. The approximate \$9.5 million or 28.0% increase in selling and marketing expenses in the first nine months of fiscal 1999 compared to the first nine months of fiscal 1998 was primarily the result of increased staffing levels in the areas of sales, technical assistance and field support, and increases in commissions earned, trade show participation, promotional costs, travel expenditures and rent expense.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses were \$12.9 million and \$16.3 million for the nine months ended July 31, 1998 and 1999, respectively. During the first nine months of fiscal 1998 and 1999, general and administrative expenses were 3.1% and 4.8% of revenue, respectively. The approximate \$3.4 million or 26.2% increase in general and administrative expenses in the first nine months of fiscal 1999 compared to the first nine months of fiscal 1998 was primarily due to increases in staffing levels and outside consulting services.

PURCHASED RESEARCH AND DEVELOPMENT. Purchased research and development costs were \$9.5 million for the nine months ended July 31, 1998. These costs were for the purchase of technology associated with the acquisition of Terabit during the second quarter 1998.

PIRELLI LITIGATION. The Pirelli litigation costs of \$30.6 million for the nine months ended July 31, 1998 was attributable to a \$30.0 million payment to Pirelli during third fiscal quarter of 1998 and to additional other legal and related costs incurred in connection with the settlement of this litigation.

MERGER COSTS. The merger costs for the first nine months ended July 31, 1998 of \$2.0 million were costs related to the contemplated merger between CIENA and Tellabs. The merger costs for the first nine months ended July 31, 1999 of 13.0 million were costs related to CIENA's acquisition of Omnia and Lightera. These costs include an \$8.1 million non-cash charge for the acceleration of warrants based upon CIENA's common stock price on June 30, 1999 and \$4.9 million for fees, legal and accounting services and other integration costs. The warrants were issued to one of Omnia's customers and became exercisable upon the consummation of the merger between CIENA and Omnia.

INTEREST AND OTHER INCOME (EXPENSE), NET. Interest income and other income (expense), net were \$10.1 million and \$10.8 million for the nine months ended July 31, 1998 and 1999, respectively. The approximate \$0.7 million or 7.2% increase in interest income and other income (expense), net was attributable to higher invested cash balances.

PROVISION (BENEFIT) FOR INCOME TAXES. CIENA's provision for income taxes was \$40.3 million for the nine months ended July 31, 1998. During the first nine months of fiscal 1998 the provision for income taxes was 39.3% of income before income taxes, respectively, exclusive of the effect of one-time charges for purchased research and development expenses. CIENA's benefit for income taxes of \$4.4 million for the first nine months of 1999 was the result of recognizing the benefit of net operating losses. During the first nine months of fiscal 1999, the benefit for income taxes was 34.5% of losses before income taxes.

LIQUIDITY AND CAPITAL RESOURCES

At July 31, 1999, CIENA's principal source of liquidity was its cash and cash equivalents of \$142.6 million and its marketable debt securities of \$155.7 million. CIENA's marketable debt securities have maturities no longer than six months.

Cash generated from operations was \$53.5 million for the nine months ended July 31, 1999. This amount was principally attributable to the non-cash charges of certain equity transactions, depreciation, amortization, provisions for inventory obsolescence and warranty, and reductions in inventories, increases in accounts payable, accrued expenses and income tax payable. This amount was offset by increases in accounts receivable and prepaid expenses due to increased revenue and to the general increase in business activity.

Investment activities in the nine months ended July 31, 1999 included the net purchase of \$139.7 million worth of corporate debt securities and \$37.0 million invested in capital expenditures. Of the amount invested in capital expenditures, \$32.3 million was used for additions to capital equipment and furniture and the remaining \$4.7 million was invested in leasehold improvements.

CIENA expects to use an additional \$35.0 million to \$45.0 million of capital during the remainder of fiscal 1999 to complete the construction of leasehold improvements for its facilities and additional investments in capital equipment.

CIENA believes that its existing cash balance and cash flows from future operations will be sufficient to meet CIENA's currently anticipated capital requirements for at least the next 18 to 24 months.

YEAR 2000 READINESS DISCLOSURE

Many computer systems were not designed to handle any dates beyond the year 1999; accordingly, affected hardware and software will need to be modified prior to the year 2000 in order to remain functional. CIENA's operations make use of a variety of computer equipment and software. If the computer equipment and software used in the operation of CIENA and its products do not correctly recognize date information when the year changes to 2000, there could be an adverse impact on CIENA's operations.

CIENA has taken actions to understand the nature and extent of work required, if any, to make its systems, products and infrastructure Year 2000 compliant. Based on internal testing performed to date and completed by CIENA, CIENA currently believes and warrants to its customers that its products are Year 2000 compliant. However, since all customer situations cannot be anticipated, particularly those involving interaction of CIENA's products with third party products, CIENA may experience warranty and other claims as a result of the Year 2000 transition. The impact of customer claims, if broader than anticipated, could have a material adverse impact on CIENA's results of operations or financial condition.

CIENA has concluded a comprehensive inventory and evaluation of both information technology ("IT") or software systems and non-IT systems used to run its systems with the exception of the systems it acquired in its merger with Omnia. Non-IT systems typically include embedded technology such as microcontrollers. Examples of CIENA's Non-IT systems include certain equipment used for production, research, testing and measurement processes and calibration. CIENA has begun the process of upgrading or replacing those identified non-compliant systems and the process is 90% complete. Completion is expected during the fourth quarter of fiscal 1999. For the Year 2000 non-compliance systems identified to date, the cost of remediation is not considered to be material to CIENA's financial condition or operating results. However, if implementation of replacement systems is delayed, or if significant new noncompliance issues are identified, CIENA's results of operations or financial condition may be materially adversely affected.

CIENA has begun the process of evaluating the systems acquired in the Omnia acquisition. CIENA expects to complete the evaluation process concerning the Omnia systems during the fourth quarter of fiscal 1999. CIENA expects to evaluate, upgrade and or replace as necessary those systems identified as non-compliant systems in Omnia by December 1, 1999.

CIENA changed its main financial, manufacturing and information system to a company-wide Year 2000 compliant enterprise resource planning ("ERP") computer-based system during the fourth quarter of fiscal 1998. CIENA estimates that it has spent approximately \$4.5 million on its ERP implementation. During the nine months ended July 31, 1999, CIENA has spent approximately \$400,000 to address identified Year 2000 issues. CIENA estimates that it will likely spend an additional \$100,000 to address remaining identified Year 2000 issues. CIENA expects that it will use cash from operations for Year 2000 remediation and replacement costs. Approximately less than 2% of the information technology budget is expected to be used for remediation. No other information technology projects have been deferred due to the Year 2000 efforts. CIENA has employed an independent verification consultant to validate CIENA's processes in order to assure the reliability of CIENA's risk estimates. His findings identify CIENA's processes as sufficient and our risk of negative impact as low.

CIENA has contacted its critical suppliers to determine that suppliers' operations and the products and services they provide are Year 2000 compliant. To date, CIENA's optical suppliers have represented that their products are year 2000 compliant and have represented that they are in the process of becoming fully compliant by December 31, 1999. If these suppliers fail to adequately address the Year 2000 issue for the products they provide to CIENA, this could have a material adverse impact on CIENA's operations and financial results. Initial contingency plans have been developed in case CIENA or its key suppliers will not be Year 2000 compliant, and such noncompliance is expected to have a material adverse impact on CIENA's operations.

The risks to CIENA resulting from the failure of third parties in the public and private sector to attain Year 2000 readiness are generally similar to those faced by other firms in CIENA's industry or other business enterprises generally. The following are representative of the types of risks that could result in the event of one or more major failures of CIENA's information systems, factories or facilities to be Year 2000 ready, or similar major failures by one or more major third party suppliers to CIENA: (1) information systems - could include interruptions or disruptions of business and transaction processing such as customer billing, payroll, accounts payable and other operating and information processes, until systems can be remedied or replaced; (2) factories and facilities - could include interruptions or disruptions of manufacturing processes and facilities with delays in delivery of products, until non-compliant conditions or components can be remedied or replaced; and (3) major suppliers to CIENA - could include interruptions or disruptions of the supply of raw materials, supplies and Year 2000 ready components which could cause interruptions or disruptions of manufacturing and delays in delivery of products, until the third party supplier remedied the problem or contingency measures were implemented. Risks of major failures of CIENA's principal products could include adverse functional impacts experienced

by customers, the costs and resources for CIENA to remedy problems or replace products where CIENA is obligated or undertakes to take such action, and delays in delivery of new products.

RISK FACTORS

OUR RESULTS CAN BE UNPREDICTABLE

Our near term results may be break-even or may involve losses. In general, sequential revenue and operating results over the next 12 months are likely to fluctuate and may continue to fluctuate in the future due to factors including:

- timing and size of orders
- the introduction of new products
- satisfaction of contractual customer acceptance criteria
- manufacturing and shipment delays and deferrals

We budget expense levels partially on our expectations of long-term future revenue. These levels reflect our substantial investment in 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. As a result, we may continue to experience increased inventory levels, operating expenses and general overhead.

Additionally, our Core Switching Division (formerly Lightera) and Access Switching Division (formerly Omnia) have ongoing development and operating expenses but are not expected to contribute materially to revenues until calendar 2000.

DELAYS IN THE DEPLOYMENT OF NEW PRODUCTS COULD HURT OUR NEAR TERM PROSPECTS

If we fail to deploy new and improved products in a timely manner, our competitive position and financial condition would be materially and adversely affected. The complexity of the technology involved with several of our new products such as the Multiwave CoreDirector and the Multiwave CoreStream products using 10 gigabit per second transmission capability could result in unanticipated delays in development and manufacturing. Such delays could adversely affect our competitive and financial condition.

The certification process for new telecommunications equipment used in RBOC networks, which is a process traditionally conducted by Telcordia Technologies, has in the past resulted in and may continue to result in unanticipated delays which may affect the deployment of our products for the RBOC market.

In order to meet our delivery commitments for our newest products, we will need to finalize component sourcing, which we have not yet completed. Any delays in component availability could result in delays in deployment of these products and in recognizing revenues. Such delays could adversely affect our customer relationships.

WE FACE INTENSE COMPETITION WHICH COULD HURT OUR SALES AND PROFITABILITY

A small number of very large companies have historically dominated our industry including Lucent, Alcatel, Nortel, NEC, Pirelli, Siemens, Ericsson, Fujitsu, and Hitachi. These companies have substantial financial, marketing and intellectual property resources. We sell systems which compete directly with product offerings of these companies and in some cases displace their legacy equipment. As such, we represent a specific threat to these companies. The expansion of our product offerings as a result of our acquisitions of Lightera and Omnia likely will increase this perceived threat. We expect continued aggressive tactics from many of these competitors such as:

- Substantial price discounting
- Early announcements of competing products
- "One-stop shopping" appeals
- Customer financing assistance
- Intellectual property disputes

These tactics can be particularly effective in a highly concentrated customer base such as ours.

Sprint, a significant customer of ours, has long indicated that it intends to establish a second vendor for DWDM products. In addition, other customers that in the past have purchased DWDM equipment from CIENA, may select a second vendor for DWDM 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. These customers could reduce their purchases from us, which could in turn have a material adverse effect on us.

New competitors may also emerge to compete with our existing products as well as our future products. In particular, a number of companies, including several start-ups, have announced products that compete with our MultiWave CoreStream, MultiWave CoreDirector and EdgeDirector products.

SMALLER CUSTOMERS MAY INCREASE FLUCTUATION IN OUR RESULTS

We have recently shifted our sales focus to smaller emerging carriers. Timing and volume of purchasing from these smaller 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 capital budget constraints. This increases the unpredictability of our financial results because even smaller carriers purchase our products in multi-million dollar increments.

Unanticipated changes in customer purchasing plans also create unpredictability in our results. Most 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 involve extended payment terms or other financing assistance. Our ability to recognize revenue from financed sales to these carriers will be impacted by their financial condition at the time of product acceptance. Further, we will need to evaluate the collectibility of receivables from these carriers if their financial condition deteriorates in the

future. Additionally, purchasing delays or changes in the amount of purchases by any of these customers, could have a material adverse effect on us.

WE MAY EXPERIENCE DELAYS FROM OUR SUPPLIERS AND FOR SOME ITEMS WE DO NOT HAVE SUBSTITUTE SUPPLIERS

We depend on a small number of suppliers for key components of our products, as well as equipment used to manufacture our products. Our highest capacity product currently being shipped, the MultiWave CoreStream which is capable of 96-channel configurations at 2.5 gigabits per second transmission speeds, includes several higher performance components for which reliable, high volume suppliers are particularly limited. On occasion, we have experienced delays in receipt of key components. Any future difficulty in obtaining sufficient and timely delivery of them could result in delays or reductions in product shipments which, in turn, could have a material adverse effect on our business, financial condition and results of operations. Delayed deliveries of key components from these sources could have a material adverse effect on CIENA's near-term results of operations.

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 Lightera and Omnia have received a substantial number of CIENA shares and vested options that can be sold at substantial gains. In many cases, these individuals could become financially independent through these sales, before CIENA's future products have matured into commercially deliverable products. Under the circumstances, we face a difficult and significant task of retaining and motivating these key personnel. As CIENA has grown and matured, competitors' efforts to entice our employees to leave

have intensified, particularly among competitive startups and other early stage companies seeking to replicate CIENA's experience. CIENA and its employees are parties to agreements that limit the employee's ability to work for a competitor following termination of employment. We expect our competitors will respect these agreements and not interfere with them. However, we can make no assurances of that, or that we will be able to retain all of our key contributors or attract new personnel to add to or replace them. The loss of key personnel would likely have a material adverse effect on our business, financial condition and results of operations.

WE MAY NOT BE ABLE TO SUCCESSFULLY COMPLETE DEVELOPMENT AND ACHIEVE COMMERCIAL ACCEPTANCE OF LIGHTERA AND OMNIA PRODUCTS

Lightera's product, the MultiWave CoreDirector is in the laboratory-testing phase and has not matured into commercially manufacturable units suitable for field deployment. We expect that field deployable units of the Multiwave CoreDirector will be available in the end of the first calendar quarter 2000. We expect that Omnia's product, the MultiWave EdgeDirector 500, will be commercially available in the third calendar quarter of 1999. The maturing process from laboratory prototype to commercial acceptance involves a number of steps, including:

- successful completion of product development
- the qualification and multiple sourcing of critical components, including application-specific integrated circuits ("ASIC's") which are not yet finalized
- validation of manufacturing methods
- extensive quality assurance and reliability testing, and staffing of testing infrastructure
- software validation
- establishment of systems integration and burn in 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 materially and adversely affect the speed and scope of product introduction and marketplace acceptance of the products. Specialized ASIC's, in particular, are key to the timely introduction of Lightera's products, and schedule delays are common in the final testing and manufacture of such components. 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. Commercial acceptance of the products is also not established and there is no assurance that the substantial sales and marketing efforts necessary to achieve commercial acceptance in traditionally long sales cycles will be successful.

PRODUCT PERFORMANCE PROBLEMS COULD LIMIT OUR SALES PROSPECTS

The production of new fiberoptic products and systems with high technology content involves occasional problems as the technology and manufacturing methods mature. We are aware of instances domestically and internationally of delayed installation and activation of some of our products due to faulty components. If significant reliability, quality or network monitoring problems develop, a number of material adverse effects could result, including:

- manufacturing rework costs
- high service and warranty expense
- high levels of product returns
- delays in collecting accounts receivable
- reduced orders from existing customers, and
- declining interest from potential customers

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 and the addition of channels, particularly because we do not control all aspects of the installation and activation activities. If we experience significant interruptions or delays that we can not promptly resolve, confidence in our products could be undermined, which could have a material adverse effect on us.

OUR PROSPECTS DEPEND ON DEMAND FOR BANDWIDTH WHICH WE CANNOT PREDICT OR CONTROL

We may not anticipate changes in direction or magnitude of demand for bandwidth. Unanticipated reductions in bandwidth demand would adversely affect us.

Our products enable high capacity transmission over long distance, and certain short-haul portions, of optical communications networks. Our Multiwave CoreDirector product is targeted to high capacity applications and our Multiwave

EdgeDirector product is targeted to providers of integrated fiberoptic access and transport networks. Customers, however, determine:

- the quantity of bandwidth needed
- the timing of its deployment, and
- the equipment configurations and network architectures they want.

Customer determinations are subject to abrupt change in response to their own competitive pressures, pressures to raise capital and financial performance expectations.

INVESTMENT IN NEW COMPANIES AND CHANGES IN TECHNOLOGY COULD RESULT IN MORE
COMPETITION

We may not be able to successfully anticipate changes in technology, industry standards, customer requirements and product offerings, yet our ability to develop and introduce new and enhanced products will impact our position as a leader in the deployment of high-capacity solutions. The accelerating pace of deregulation in the telecommunications industry will likely intensify the competition for improved technology. Many of our competitors have substantially greater financial, technical and marketing resources and manufacturing capacity with which to develop or acquire new technologies. There has been an increase in the funding of new companies intending to develop new products for the rapidly evolving telecom industry. These companies have time-to-market advantages due to the narrow and exclusive focus of their efforts. New companies may provide additional competition for our existing product lines as well as potential future products. The introduction of new products embodying new technologies or the emergence of new industry standards could render our existing products uncompetitive from a pricing standpoint, obsolete or unmarketable. Any of these outcomes would have a material adverse effect on our business, financial condition and results of operations.

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 we may make. This occurred in 1998. We attempt to address this possible divergence through our public announcements and reports; however, the degree of specificity we can offer in such announcements, and the likelihood that any forward-looking statements we make will prove correct in actual results, can and will vary. This is due primarily to:

- the uncertainties associated with our dependence on a small number of existing and potential customers
- the impact of changes in the customer mix
- the actions of competitors
- long and unpredictable sales cycles and customer purchasing programs
- the absence of unconditional minimum purchase commitments from any customer
- a lack of visibility into our customers' deployment plans over the course of the capital equipment procurement year, and
- the lack of reliable data on which to anticipate core demand for high bandwidth transmission capacity

Divergence 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 relatively few customers, and particularly when a substantial majority of their purchases consist of newly-introduced products such as the MultiWave CoreStream, Multiwave Edge Director and MultiWave Metro, there is substantial risk of widely varying quarterly results.

LEGAL PROCEEDINGS COULD HAVE AN ADVERSE EFFECT ON OUR BUSINESS

In August 1998, shareholder class action lawsuits were filed against us and certain of our officers and directors. These lawsuits, which were consolidated into one complaint, were dismissed by the United States District Court on July 19, 1999 with leave to amend until August 20, 1999. We believe the allegations in the complaint are without merit and intend to defend vigorously against them should an amended complaint be filed. However, a consolidated amended complaint has not yet been filed, and it is not possible to predict the outcome at this time. If an amended complaint is filed and it is decided adversely to CIENA, it could have a material adverse effect on our financial condition and results of operations.

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 certain key components from:

- Lucent
- Alcatel
- Nortel
- NEC, and
- Siemens

Each of these companies offers optical communications systems and equipment which are competitive with our products. Also, Lucent is the sole source of two components and is one of two suppliers of two others. 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 materially and adversely affect our business, financial condition and results of operations.

WE EXPECT THAT OUR ACQUISITIONS OF LIGHTERA AND OMNIA WILL MAKE OUR STOCK PRICE MORE VOLATILE

Both Lightera and Omnia are still completing their respective development stages, and we do not expect either of them to generate any revenue or earnings for at least several months. Under these circumstances, we can expect significant volatility over the next several quarters as investors make judgments as to our relative progress in:

- bringing the Lightera and Omnia products to market
- integrating the two companies
- managing retention issues, and
- generally executing on the strategic vision.

Additionally, the shares held by former Lightera and Omnia shareholders, together account for approximately 25% of the outstanding shares of CIENA. If a large portion of these shares are sold within short periods of time, the stock price may experience further volatility and may decline.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

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 investment portfolio consisting mainly of corporate debt securities and U.S. government agency discount notes with an average maturity of less than six months. These held-to-maturity 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 July 31, 1999, the fair value of the portfolio would decline by an immaterial amount. The Company has the ability to hold its fixed income investments until maturity, and therefore the Company would not expect its operating results or cash flows to be affected to any significant degree by the effect of a sudden change in market interest rates on its securities portfolio.

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 nondollar-denominated operating expenses in Canada, Europe and Asia where the Company sells primarily in U.S. dollars. The introduction of the Euro as a common currency for members of the European Monetary Union has not had a material impact on CIENA's foreign exchange exposure. The Company is prepared to hedge against fluctuations in the Euro if this exposure becomes material. As of July 31, 1999 the assets and liabilities of the Company related to nondollar -denominated currencies was not material.

PART II. - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

CLASS ACTION LITIGATION

A class action complaint was filed on August 26, 1998 in U.S. District Court for the District of Maryland entitled Witkin et.al v. CIENA Corporation et. al (Case No. Y-98-2946). Several other complaints, substantially similar in content were consolidated by court order on November 30, 1998. An amended, consolidated complaint was filed on February 16, 1999. The complaint alleged that CIENA and certain officers and directors violated certain provisions of the federal securities laws, including Section 10(b) and Rule 10b-5 under the Securities Exchange Act of 1934, by making false

statements, failing to disclose material information and taking other actions intending to artificially inflate and maintain the market price of CIENA's common stock during the Class Period of May 21, 1998 to September 14, 1998, inclusive. The plaintiffs sought designation of the suit as a class action on behalf of all persons who purchased shares of CIENA's common stock during the Class Period and the awarding of compensatory damages in an amount to have been determined at trial together with attorneys' fees. On February 16, 1999, an amended complaint was filed. On July 19, 1999 the United States District Court dismissed the suit before any discovery had been taken. Plaintiffs were given leave to amend until August 20, 1999. CIENA believes the suit is without merit and if the plaintiffs file a second amended complaint, CIENA intends to continue to defend the case vigorously.

ITEM 6. EXHIBITS AND REPORTS on Form 8-K

(a)	Exhibit -----	Description -----
	10.20	Omnia Communications, Inc. 1997 Stock Plan and Form of Agreements
	27.10	Financial Data Schedule (filed only electronically with the SEC)
(b)	Reports on Form 8-K : Form 8-K filed July 21, 1999	

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: August 19, 1999

By: /s/ Patrick H. Nettles

Patrick H. Nettles
President, Chief Executive Officer
and Director
(Duly Authorized Officer)

Date: August 19, 1999

By: /s/ Joseph R. Chinnici

Joseph R. Chinnici
Senior Vice President, Finance and
Chief Financial Officer
(Principal Financial Officer)

1997 Stock Plan and Form of Agreements

OMNIA COMMUNICATIONS, INC.

1997 STOCK PLAN

1. PURPOSE. The purpose of the Omnia Communications, Inc. 1997 Stock Plan (the "Plan") is to provide an incentive for employees of Omnia Communications, Inc., a Delaware corporation (the "Company") and of any present or future parent or subsidiary of the Company (collectively, "Related Corporations") and other individuals who render services to the Company or a Related Corporation, by offering opportunities to participate in the ownership of the Company and its future growth through (a) the grant of options which qualify as "incentive stock options" ("ISOs") under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"); (b) the grant of options which do not qualify as ISOs ("Non-Qualified Options"); (c) awards of stock in the Company ("Awards"); and (d) opportunities to make direct purchases of stock in the Company ("Purchases"). Both ISOs and Non-Qualified Options are referred to hereafter individually as an "Option" and collectively as "Options." Options, Awards and authorizations to make Purchases are referred to hereafter collectively as "Stock Rights." As used herein, (i) the terms "parent" and "subsidiary" mean "parent corporation" and "subsidiary corporation," respectively, as those terms are defined in Section 424 of the Code, and (ii) the term "grantee" refers to the recipient of a Stock Right.

2. ADMINISTRATION OF THE PLAN.

A. BOARD OR COMMITTEE ADMINISTRATION. The Plan shall be administered by the Board of Directors of the Company (the "Board") or by a committee of two or more non-employee directors appointed by the Board (the "Committee"). Hereinafter, all references in the Plan to the "Committee" shall mean the Board if no Committee has been appointed. Subject to the terms of the Plan, the Committee shall have the authority to (i) determine to whom (from among the class of employees eligible under paragraph 3 to receive ISOs) ISOs shall be granted, and to whom (from among the class of individuals and entities eligible under paragraph 3 to receive Non-Qualified Options and Awards and to make Purchases) Non-Qualified Options, Awards and authorizations to make Purchases may be granted; (ii) determine the time or times at which Options or Awards shall be granted or Purchases made; (iii) determine the purchase price of shares subject to each Option or Purchase, which prices shall not be less than the minimum price specified in paragraph 6; (iv) determine whether each option granted shall be an ISO or a Non-Qualified Option; (v) determine (subject to paragraph 7) the time or times when each Option shall become exercisable and the duration of the exercise period; (vi) extend the period during which outstanding Options may be exercised; (vii) determine whether restrictions such as repurchase options (in addition to the forfeiture provisions specified in paragraph 20) are to be imposed on shares subject to Options, Awards and Purchases and the nature of such restrictions, if any, (viii) determine whether performance targets or goals are to be imposed on Options, Awards and Purchases and set and interpret such targets or goals, and (ix) interpret the Plan and prescribe and rescind rules and regulations relating to it. The interpretation and construction by the Committee of any provisions of the Plan or any Stock Right granted under it shall be final unless otherwise determined by the Board. The Committee may from time to time adopt such rules and regulations for carrying out the Plan as it may deem advisable. Consistent with the terms of the Plan, the Committee may waive, modify or suspend any restriction or performance target or goal imposed by the Committee. No member of the Board or the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Stock Right granted under it.

B. GRANT OF STOCK RIGHTS TO BOARD MEMBERS. Subject to the restrictions on ISOs imposed by the Code, Stock Rights may be granted to members of the Board, including members of the Committee. All grants of Stock Rights to members of the Board shall in all other respects be made in accordance with the provisions of this Plan applicable to other eligible persons. Members of the Board who either (i) are eligible to receive grants of Stock Rights pursuant to the Plan or (ii) have been granted Stock Rights may vote or act by written consent on any matters affecting the administration of the Plan.

3. ELIGIBLE EMPLOYEES AND OTHERS. ISO's may be granted only to employees of the Company or any Related Corporation. Non-Qualified Options, Awards and authorizations to make Purchases may be granted to any employee, officer or director (whether or not also an employee) or consultant of the Company or any Related Corporation.

The Committee may take into consideration a recipient's individual circumstances in determining whether to grant a Stock Right. The granting of any Stock Right to any individual or entity shall neither entitle that individual or entity to, nor disqualify such individual or entity from, participation in any other grant of Stock Rights, or any other incentive plan or arrangement of the Company.

4. STOCK. The stock subject to Stock Rights shall be authorized but unissued shares of Common Stock of the Company, par value \$0.001 per share (the "Common Stock"), or shares of Common Stock reacquired by the Company in any manner. The aggregate number of shares of Common Stock which may be issued pursuant to the Plan is 5,777,925 subject to adjustment as provided in paragraph 13. If any Option granted under the Plan shall expire or terminate for any reason without having been exercised in full or shall cease for any reason to be exercisable in whole or in part or shall be repurchased by the Company, the unpurchased shares of Common Stock subject to such Option shall again be available for grants of Stock Rights under the Plan.

5. GRANTING OF STOCK RIGHTS. Stock Rights may be granted under the Plan at any time on or after the date of adoption hereof and prior to October 31, 2007. The date of grant of a Stock Right under the Plan will be the date specified by the Committee at the time it grants the Stock Right.

6. MINIMUM OPTION PRICE; ISO LIMITATIONS

A. PRICE FOR NON-QUALIFIED OPTIONS, AWARDS AND PURCHASES. The exercise price per share specified in the agreement relating to each Non-Qualified Option granted, and the purchase price per share of stock granted in any Award or authorized as a Purchase, under the Plan shall in no event be less than the minimum legal consideration required therefor under the laws of any jurisdiction in which the Company or its successors in interest may be organized.

B. PRICE FOR ISOS. The exercise price per share specified in the agreement relating to each ISO granted under the Plan shall not be less than the fair market value per share of Common Stock on the date of such grant. In the case of an ISO to be granted to an employee owning stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Related Corporation, the price per share specified in the agreement relating to such ISO shall not be less than one hundred ten percent (110%) of the fair market value per share of Common Stock on the date of grant. For purposes of determining stock ownership under this paragraph, the rules of Section 424(d) of the Code shall apply.

C. \$100,000 ANNUAL LIMITATION ON ISO VESTING. Each eligible employee may be granted Options treated as ISOs only to the extent that, in the aggregate under this Plan and all incentive stock option plans of the Company and any Related Corporation, ISOs do not become exercisable from the first time by such employee during any calendar year with respect to stock having a fair market value (determined at the time the ISOs were granted) in excess of \$100,000. The Company intends to designate any Options granted in excess of such limitation as Non-Qualified Options.

D. DETERMINATION OF FAIR MARKET VALUE. If, at the time an Option is granted under the Plan, the Company's Common Stock is publicly traded, "fair market value" shall be determined as of the date of grant or, if the prices or quotes discussed in this sentence are unavailable for such date, the last business day for which such prices or quotes are available prior to the date of grant and shall mean (i) the average (on that date) of the high and low prices of the Common Stock on the principal national securities exchange on which the Common Stock is traded, if the Common Stock is then traded on a national securities exchange; or (ii) the last reported sale price (on that date) of the Common Stock on the NASDAQ National Market, if the Common Stock is not then traded on a national securities exchange; or (iii) the closing bid (or average of bid prices) last quoted (on that date) by an established quotation service for over-the-counter securities, if the Common Stock is not reported on the NASDAQ National Market. If the Common Stock is not publicly traded at the time an Option is granted under the Plan, "fair market value" shall mean the fair value of the Common Stock as determined by the Committee after taking into consideration all factors which it deems appropriate, including, without limitation, recent sale and offer prices of the Common Stock in private transactions negotiated at arm's length.

7. OPTION DURATION. Subject to earlier termination as provided herein or in the agreement relating to such Option, each Option shall expire on the date specified by the Committee, but not more than (i) ten years from the date of grant in the case of Options generally and (ii) five years from the date of grant in the case of ISOs granted to an employee owning stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Related Corporation, as determined under paragraph 6(B). Subject to earlier termination as

provided herein, the term of each ISO shall be the term set forth in the original instrument granting such ISO, except with respect to any part of such ISO that is converted into a Non-Qualified Option pursuant to paragraph 16.

8. EXERCISE OF OPTION. Subject to the provisions of paragraphs 9 through 12 and 20, each Option granted under the Plan shall be exercisable as follows:

A. VESTING. The Option shall either be fully exercisable on the date of grant or shall become exercisable thereafter in such installments (which need not be equal) as the Committee may specify.

B. FULL VESTING OF INSTALLMENTS. Once an installment becomes exercisable it shall remain exercisable until expiration or termination of the Option, unless otherwise specified by the Committee.

C. PARTIAL EXERCISE. Each Option or installment may be exercised at any time or from time to time, in whole or in part, for up to the total number of shares with respect to which it is then exercisable.

D. ACCELERATION OF VESTING. The Committee may in its discretion, at any time, accelerate the date that any installment of any Option becomes exercisable, including prior to or in connection with any Acquisition (as defined in paragraph 13(B)); provided that the Committee shall not, without the consent of an optionee, accelerate the permitted exercise date of any installment of any Option granted to any employee as an ISO (and not previously converted into a Non-Qualified Option pursuant to paragraph 16) if such acceleration would violate the annual vesting limitation contained in Section 422(d) of the Code, as described in paragraph 6(C).

9. TERMINATION OF EMPLOYMENT. Unless otherwise specified in the agreement relating to such ISO, if an ISO optionee ceases to be employed by the Company and all Related Corporations other than by reason of death or disability as defined in paragraph 10, no further installments of his or her ISOs shall become exercisable, and his or her ISOs shall terminate on the earlier of (a) three months after the date of termination of his or her employment, or (b) their specified expiration dates, except to the extent that such ISOs (or unexercised installments thereof) have been converted into Non-Qualified Options pursuant to paragraph 16. For purposes of this paragraph 9, employment shall be considered as continuing uninterrupted during any bona fide leave of absence (such as those attributable to illness, maternity leave, military obligations or governmental service) provided that the period of such leave does not exceed 90 days or, if longer, any period during which such optionee's right to reemployment is guaranteed by statute. A bona fide leave of absence with the written approval of the Committee shall not be considered an interruption of employment under this paragraph 9, provided that such written approval contractually obligates the Company or any Related Corporation to continue the employment of the optionee after the approved period of absence. ISOs granted under the Plan shall not be affected by any change of employment within or among the Company and Related Corporations, so long as the optionee continues to be an employee of the Company or any Related Corporation. Nothing in the Plan shall be deemed to give any grantee of any Stock Right the right to be retained in employment or other service by the Company or any Related Corporation for any period of time.

10. DEATH; DISABILITY.

A. DEATH. If an ISO optionee ceases to be employed by the Company and all Related Corporations by reason of his or her death, any ISO held by such optionee upon death may be exercised, to the extent otherwise exercisable on the date of death, by the estate, personal representative or beneficiary who has acquired the ISO by will or by the laws of descent and distribution, until the earlier of (i) the specified expiration date of the ISO or (ii) one year from the date of the optionee's death.

B. DISABILITY. If an ISO optionee ceases to be employed by the Company and all Related Corporations by reason of his or her disability, such optionee shall have the right to exercise any ISO held by him or her on the date of termination of employment, for the number of shares for which he or she could have exercised it on that date, until the earlier of (i) the specified expiration date of the ISO or (ii) one year from the date of termination of the optionee's employment. For the purposes of the Plan, the term "disability" shall mean "permanent and total disability" as defined in Section 22(e)(3) of the Code or any successor statute.

11. ASSIGNABILITY. Unless otherwise determined by the Committee or specified in the agreement relating to a Stock Right, no Stock Right shall be assignable or transferable by the grantee except by will or by the laws of

descent and distribution. Except as set forth in the previous sentence, during the lifetime of a grantee each Stock Right shall be exercisable only by such grantee.

12. TERMS AND CONDITIONS OF STOCK RIGHTS. Stock Rights shall be evidenced by agreements or other instruments (which need to be identical) in such forms as the Committee may from time to time approve. Such instruments shall conform to the terms and conditions set forth in paragraphs 6 through 11 hereof, to the extent applicable, and may contain such other provisions as the Committee deems advisable which are not inconsistent with the Plan, including restrictions applicable to shares of Common Stock issuable upon exercise of Stock Rights. The Committee may specify that any Stock Right shall be subject to the restrictions set forth herein with respect to ISOs, or to such other termination and cancellation provisions as the Committee may determine. The Committee may from time to time confer authority and responsibility on one or more of its own members and/or one or more officers of the Company to execute and deliver such instruments. The officers of the Company are authorized and empowered to take any and all action necessary or advisable from time to time to carry out the terms of such instruments.

13. ADJUSTMENTS. Upon the occurrence of any of the following events, the shares of Common Stock subject to outstanding Stock Rights granted hereunder shall be adjusted as hereinafter provided, unless otherwise specifically provided in the written agreement between the grantee and the Company relating to such Stock Right:

A. STOCK DIVIDENDS AND STOCK SPLITS. If the shares of the Company shall be subdivided or combined into a greater or smaller number of shares or if the Company shall issue any shares of Common Stock as a stock dividend on its outstanding Common Stock, the number of shares of Common Stock subject to outstanding Stock Rights shall be appropriately increased or decreased proportionately, and appropriate adjustments shall be made in the purchase price per share to reflect such subdivision, combination or stock dividend.

B. CONSOLIDATIONS OR MERGERS. If the Company is to be consolidated with or acquired by another entity in a merger or other reorganization in which the holders of the outstanding voting stock of the Company immediately preceding the consummation of such event, shall, immediately following such event, hold, as a group, less than a majority of the voting securities of the surviving or successor entity, or in the event of a sale of all or substantially all of the Company's assets or otherwise (each, an "Acquisition"), the Committee or the board of directors of any entity assuming the obligations of the Company hereunder (the "Successor Board"), shall, as to outstanding Stock Rights, either (i) make appropriate provision for the continuation of such Stock Rights by substituting on an equitable basis for the shares then subject to such Stock Rights either (a) the consideration payable with respect to the outstanding shares of Common Stock in connection with the Acquisition, (b) shares of stock of the surviving or successor corporation or (c) such other securities as the Successor Board deems appropriate, the fair market value of which shall not materially exceed the fair market value of the shares of Common Stock subject to such Stock Rights immediately preceding the Acquisition; or (ii) upon written notice to the grantees, provide that all Stock Rights must be exercised, to the extent then exercisable or to be exercisable as a result of the Acquisition, within a specified number of days of the date of such notice, at the end of which period the Stock Rights shall terminate; or (iii) terminate all Stock Rights in exchange for a cash payment equal to the excess of the fair market value of the shares subject to such Stock Rights (to the extent then exercisable or to be exercisable as a result of the Acquisition) over the exercise price thereof.

C. RECAPITALIZATION OR REORGANIZATION. In the event of a recapitalization or reorganization of the Company (other than a transaction described in subparagraph B above) pursuant to which securities of the Company or of another corporation are issued with respect to the outstanding shares of Common Stock, a grantee upon exercising a Stock Right shall be entitled to receive for the purchase price paid upon such exercise the securities he or she would have received if he or she had exercised such Stock Right prior to such recapitalization or reorganization.

D. MODIFICATION OF ISOS. Notwithstanding the foregoing, any adjustments made pursuant to subparagraphs A, B or C with respect to ISOs shall be made only after the Committee, after consulting with counsel for the Company, determines whether such adjustments would constitute a "modification" of such ISOs (as that term is defined in Section 424 of the Code) or would cause any adverse tax consequences for the holders of such ISOs. If the Committee determines that such adjustments made with respect to ISOs would constitute a modification of such ISOs or would cause adverse tax consequences to the holders, it may in its discretion refrain from making such adjustments.

E. DISSOLUTION OR LIQUIDATION. In the event of the proposed dissolution or liquidation of the Company, each outstanding Stock Right will terminate immediately prior to the consummation of such proposed action or at such other time and subject to such other conditions as shall be determined by the Committee.

F. OTHER ISSUANCES OF SECURITIES. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares subject to outstanding Stock Rights. No adjustments shall be made for dividends paid in cash or in property other than securities of the Company.

G. FRACTIONAL SHARES. No fractional shares shall be issued under the Plan, and the grantee of a Stock Right shall receive from the Company cash in lieu of any such fractional share.

H. ADJUSTMENTS. Upon the happening of any of the events described in subparagraphs A, B or C above, the class and aggregate number of shares set forth in paragraph 4 hereof that are subject to Stock Rights which previously have been or subsequently may be granted under the Plan shall also be appropriately adjusted to reflect the events described in such subparagraphs. The Committee or the Successor Board shall determine the specific adjustments to be made under this paragraph 13 and, subject to paragraph 2, its determination shall be conclusive.

14. EXERCISE OF OPTIONS. An Option (or any part or installments thereof) shall be exercised by giving written notice to the Company at its principal office address. Such notice shall identify the Option being exercised and specify the number of shares as to which such Option is being exercised. The optionee shall make full payment of the exercise price of the Option shares being purchased either (a) in United States dollars in cash or by check, (b) at the discretion of the Committee, through delivery or withholding of shares of Common Stock having a fair market value equal as of the date of the exercise to the cash exercise price of the Option, (c) at the discretion of the Committee and consistent with applicable law, through the delivery to the Company of a portion of the proceeds from the sale of the Common Stock acquired upon the exercise of the Option equal to the cash exercise price of the Option, along with an authorization to the broker or selling agent to pay that amount to the Company, which sale shall be at the participant's discretion at the time of exercise, or (d) at the discretion of the Committee, by a combination of (a), (b) and (c) above. The holder of an Option shall not have the rights of a shareholder with respect to the shares covered by such Option until the date of issuance of a stock certificate to such holder for such shares. Except as expressly provided above in paragraph 13 with respect to changes in capitalization and stock dividends, no adjustment shall be made for dividends or similar rights for which the record date is before the date such stock certificate is issued. Unless the Company then has a class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company may require, as a condition of the exercise of any Option and the issuance of stock certificates, that the optionee execute and deliver to the Company a counterpart copy of any Stockholders Agreement, Stock Restriction Agreement or other similar agreement restricting the transfer of shares of Common Stock as may then be in effect.

15. TERM AND AMENDMENT OF PLAN. The Plan was adopted by the Board as of _____, 1997 and approved by the stockholders of the Company as of _____, 1997. The Plan shall expire at the close of business on October 31, 2007 (except as to Stock Rights outstanding on that date). The Board may terminate or amend the Plan in any respect at any time, except that no amendment of the Plan by the Board shall be effective, without the approval of the stockholders obtained within 12 months before or after the Board's action, (i) if such amendment would cause ISOs already granted under the Plan to fail to qualify as "incentive stock options" under the Code, or (ii) if such stockholder approved is then required by applicable law, by Rule 16b-3 (or any successor rule) under the Exchange Act, or by applicable regulations of any stock exchange or NASDAQ. In no event may action of the Board or stockholders alter or impair the rights of a grantee, without such grantee's consent, under any Stock Right previously granted to such grantee, except as provided herein.

16. CONVERSION OF ISOS INTO NON-QUALIFIED OPTIONS. The Committee, at the written request or with the written consent of any optionee, may in its discretion take such actions as may be necessary to convert such optionee's ISOs (or any installments or portions of installments thereof) that have not been exercised on the date of conversion into Non-Qualified Options at any time prior to the expiration of such ISOs, regardless of whether the optionee is an employee of the Company or a Related Corporation at the time of such conversion. Such actions may include, but shall not be limited to, extending the exercise period or reducing the exercise price of the appropriate installments of such ISOs. At the time of such conversion, the Committee (with the consent of the optionee) may impose such conditions on the exercise of the

resulting Non-Qualified Options as the Committee in its discretion may determine, provided that such conditions shall not be inconsistent with this Plan. Nothing in this Plan shall be deemed to give any optionee the right to have such optionee's ISOs converted into Non-Qualified Options, and no such conversion shall occur until and unless the Committee takes appropriate action.

17. APPLICATION OF FUNDS. The proceeds received by the Company from the sale of shares pursuant to Options granted and Purchases authorized under the Plan shall be used for general corporate purposes.

18. NOTICE TO COMPANY OF DISQUALIFYING DISPOSITIONS. By accepting an ISO granted under the Plan, each optionee agrees to notify the Company in writing immediately after such optionee makes a "Disqualifying Disposition" (as described in Sections 421, 422 and 424 of the Code and the regulations thereunder) of any stock acquired pursuant to the exercise of the ISOs granted under the Plan. A Disqualifying Disposition is generally any disposition occurring on or before the latter of (a) the date of two years following the date the ISO was granted or (b) the date one year following the date the ISO was exercised.

19. WITHHOLDING OF INCOME TAXES. Upon the exercise of a Non-Qualified Option, the grant of an Award, the making of a Purchase of Common Stock for less than its fair market value, the making of a Disqualifying Disposition (as defined in paragraph 18), the vesting or transfer of restricted stock or securities acquired on the exercise of an Option hereunder, or the making of a distribution or other payment with respect to such stock or securities, the Company may withhold taxes in respect of amounts that constitute compensation includible in gross income. The Committee in its discretion may condition (i) the exercise of an Option, (ii) the grant of an Award, (iii) the making of a Purchase of Common Stock for less than its fair market value, or (iv) the vesting or transferability of restricted stock or securities acquired by exercising an Option, on the grantee's making satisfactory arrangement for such withholding. Such arrangement may include payment by the grantee in cash or by check of the amount of the withholding taxes or, at the discretion of the Committee, by the grantee's delivery of previously held shares of Common Stock or the withholding, from the shares of Common Stock otherwise deliverable upon exercise of a Stock Right, of that number of shares having an aggregate fair market value equal to the amount of such withholding taxes.

20. FORFEITURE.

A. RESTRICTED ACTIVITIES. In order to effectuate the purposes of the Plan set forth in Paragraph 1, and in consideration of the Company's grant of Stock Rights hereunder to employees of the Company or a Related Corporation:

(a) The grantee shall not, during the period of any employment with the Company or a Related Corporation, and for a period of one (1) year thereafter, directly or indirectly, employ or contract for the services of or attempt to employ or contract for the services of, or assist any other person or entity (a "Third Party") in employing or contracting for the services of, any person who is an employee or contractor of the Company or a Related Corporation during the one-year period prior to termination of such grantee's employment with the Company or a Related Corporation.

(b) The grantee shall not, during the period of any employment with the Company or a Related Corporation, and for a period of one (1) year thereafter, engage, directly or indirectly, in any activity in competition with the business of the Company, or otherwise inimicable, contrary or harmful to the interests of the Company, including but not limited to: (i) conduct relating to employment with the Company for which either criminal or civil penalties may be sought, (ii) violation of Company policies, including, without limitation, any insider trading policy of the Company, (iii) acquiring an ownership interest (other than ownership of up to two percent (2%) of a publicly-traded entity), or accepting employment with, or serving as a consultant, advisor or in any other capacity to or for, any Third Party engaged in competition with the Company, including without limitation by offering the same or similar products or services as the Company offers to the Company's customers and prospects (and whether or not the relationship with such customers or prospects was established in whole or in part through the grantee's efforts), (iv) disclosing or misusing any confidential information or material concerning the Company, or (v) participating in a hostile takeover attempt targeting the Company.

B. FORFEITURE PROVISIONS.

(a) In the event of a breach by a grantee of any of the provisions of paragraph 20(A), then:

(i) all outstanding Stock Rights granted to such grantee under this Plan shall terminate, without further action, effective on the date on which the grantee breaches;

(ii) any Option Gain, as hereinafter defined, realized by the grantee from exercising all or any portion of any Option, shall be paid by the grantee to the Company; and

(iii) any shares of Common Stock purchased by the grantee pursuant to the exercise of Stock Rights under the Plan and still held by the grantee may be repurchased by the Company at their original exercise price.

(b) The Company may set off and deduct from any amounts that the Company owes the grantee from time to time (including amounts owed to the grantee as wages or other compensation, fringe benefits, or vacation pay, as well as any other amounts owed to the grantee by the Company), to the extent of the amounts owned to the Company under the provisions of this paragraph 20(B). Whether or not the Company elects to set off all or any portion of the amounts due it, if the Company does not recover by means of setoff the full amount owed to it, calculated as set forth above, the grantee agrees to pay immediately upon demand the unpaid balance to the Company.

C. OPTION GAIN. As used herein, "Option Gain" means the amounts realized by the grantee from the sale or other disposition of any shares purchased by the grantee upon exercise of any Option provided for herein, net of the exercise price paid by the grantee for such shares.

D. WAIVERS. The Committee may waive or release any of the provisions of this paragraph 20, including specifically the provisions of subparagraph B, if and only if the Committee determines in its sole discretion that such action is in the best interests of the Company.

21. GOVERNMENTAL REGULATIONS. The Company's obligation to sell and deliver shares of Common Stock under this Plan is subject to the approval of any governmental authority required in connection with the authorization, issuance or sale of such shares.

Government regulations may impose reporting or other obligations on the Company with respect to the Plan. For example, the Company may be required to send tax information statements to employees and former employees that exercise ISOs under the Plan, and the Company may be required to file tax information returns reporting the income received by grantees of Options in connection with the Plan.

22. GOVERNING LAW. The validity and construction of the Plan and the instruments evidencing Stock Rights shall be governed by the laws of the state of Delaware or the laws of any jurisdiction in which the Company or its successors in interest maybe organized.

OMNIA COMMUNICATIONS, INC.

INCENTIVE STOCK OPTION AGREEMENT

(OPTION HOLDER: _____)

AGREEMENT made as of the ____ day of _____, 1999 between Omnia Communications, Inc., a Delaware corporation (the "Company"), and _____ of _____ (the "Option Holder").

WHEREAS, the Company desires to provide the Option Holder with an incentive to promote the business of the Company and to encourage the Option Holder to continue his employment; and

WHEREAS, to effectuate that desire the Company has determined to grant to the Option Holder an incentive stock option to purchase shares of the Company's common stock under and pursuant to the terms and provisions of the Company's 1997 Stock Option Plan (the "Plan").

NOW, THEREFORE, the Company and the Option Holder agree as follows:

1. Grant of Option.

The Company hereby grants to Option Holder the option to purchase _____ (_____) shares (the "Option Shares") of the Company's Common Stock, \$0.001 par value, at a price per share equal to \$_____, in the manner and subject to the conditions hereinafter provided. This option is granted pursuant to and subject to all of the terms and conditions of the Plan and, unless the context otherwise requires, terms used herein shall have the same meaning as in the Plan. Determinations made in connection with this option shall be governed by the Plan as it exists on this date and, in the event of any inconsistency or conflict between this Agreement and the Plan, the terms of the Plan shall govern.

2. Time of Exercise.

Option Holder may exercise this option from _____ to and including _____, the end of [ten] years from the date this Option is granted, provided that no portion of this Stock Option may be exercised until such portion shall have vested. Except as set forth below, this Stock Option shall be vested and exercisable as follows: 1/36 of the total number of Option Shares shall vest and become exercisable in equal monthly increments commencing one year after the date hereof, such that the Option Holder may exercise this option as to all of the Option Shares forty-eight (48) months from the date hereof.

Notwithstanding the foregoing, the Option Holder may exercise this option as to 50% of all then unvested Option Shares upon a Change of Control Transaction, as defined below, and all remaining unvested Option Shares shall vest and become exercisable in equal increments over the following twelve (12) months provided, however, that if the Change of Control Transaction is intended to be accounted for as a "pooling of interests" for financial accounting purposes, and if, in the opinion of the Company's Board of Directors after consultation with the Company's independent accountants, the acceleration of vesting to be effected by this sentence would preclude accounting for the Change of Control Transaction as a "pooling of interests" for financial accounting purposes, then no such acceleration of vesting shall occur upon the Change of Control Transaction. For purposes of this Agreement, the term "Change of Control Transaction" means any single or related series of transactions after which more than fifty (50%) percent of the voting stock of the Company outstanding immediately after the effective date of such Change of Control Transaction is owned of record or beneficially by persons other than the holders of such capital stock immediately prior to such Change of Control Transaction.

3. Method of Exercise.

Each exercise of this option shall be effected by giving written notice of intent to exercise this option, specifying the number of shares of stock as to which the option is being exercised, and accompanied by full payment of the option price for the number of shares then being acquired. Payment shall be made in cash, by certified or bank check payable to the order of

the Company, or, with the consent of the Company's Board of Directors given at the time of exercise of this option (which may be granted or withheld by said Board in its sole and absolute discretion), (i) in shares by the Company's Common Stock having an aggregate fair market value, at the time of payment, equal to the option price for the number of shares of stock for which Option Holder is then making payment, or (ii) partly in cash or by certified or bank check payable to the order of the Company and the balance in shares of the Company's Common Stock having an aggregate fair market value, at the time of such payment, equal to the difference between the option price for the number of shares of stock for which payment is then being made and the amount of the payment in cash or by certified or bank check; provided, however, that no part of the purchase price for any shares being purchased pursuant to an exercise of this option shall be paid in shares of the Company's Common Stock which were previously acquired by Option Holder (x) pursuant to an earlier exercise of this option, or (y) pursuant to the exercise of another incentive stock option granted by the Company if the previously acquired shares have been held by Option Holder for less than two years since the date of the granting of such other option to Option Holder or for less than one year since the transfer to Option Holder of such previously acquired shares. The determination of fair market value shall be made by the Board of Directors of the Company, whose determination in this regard shall be final and binding on the Company and on Option Holder.

Receipt by the Company of such notice and payment shall constitute exercise of this option or a part hereof. Promptly thereafter, the Company shall deliver or cause to be delivered to Option Holder a certificate or certificates for the number of shares of the Company's Common Stock being acquired pursuant to such exercise. Such shares shall be fully paid and nonassessable. Notwithstanding the foregoing, the Company shall not be required to issue such shares unless a registration statement under the Securities Act of 1933, as amended (the "Securities Act") is in effect with respect to such shares or the Company has received evidence satisfactory to the Company that Option Holder may acquire such shares pursuant to an exemption from registration under the Securities Act. In addition, as to any jurisdiction (other than the United States) that expressly imposes the requirement that this option shall not be exercisable unless and until the shares of Stock covered by this option are registered or are subject to an available exemption from registration, the exercise of this option shall, notwithstanding anything to the contrary contained herein, be deemed conditioned upon the effectiveness of such registration or the availability of such an exemption. Any determination in that regard by the Company shall be final and conclusive. The Company shall not be obligated to take any affirmative action in order to cause the exercise of this option or the issuance of shares of Stock pursuant hereto to comply with any law or regulation of any governmental authority.

4. Termination of Employment.

This option shall, to the extent not previously exercised, expire immediately upon the termination (voluntary or involuntary) of Option Holder's employment with the Company or with a parent or subsidiary of the Company; except that:

(a) If Option Holder is on military, sick leave or other bona fide leave of absence (such as temporary employment by the federal government), Option Holder's employment relationship will be treated as continuing intact if the period of such leave does not exceed 90 days, or, if longer, so long as Option Holder's right to reemployment is guaranteed either by statute or by contract; otherwise, Option Holder's employment will be deemed to have terminated on the 91st day of such leave.

(b) If Option Holder's employment is terminated by reason of Option Holder's retirement, this option, to the extent exercisable at retirement, may be exercised by Option Holder within three months after retirement, unless terminated earlier by its terms.

(c) If Option Holder's employment is terminated by reason of Option Holder's death, this option, to the extent exercisable at Option Holder's date of death, may be exercised at any time within one year after that date (unless terminated earlier by its terms) by the person(s) to whom Option Holder's option rights pass by will or by the applicable laws of descent and distribution.

(d) If Option Holder's employment is terminated by reason of Option Holder's becoming permanently and totally disabled, this option, to the extent exercisable upon the occurrence of permanent and total disability, may be exercised by Option Holder within one year after such occurrence unless terminated earlier by its terms. For purposes hereof, Option Holder shall be deemed to be "permanently and totally disabled" if Option Holder is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months. Any determination of permanent and total disability shall be made in good faith by the Company on the basis of a report signed by a qualified

5. Non-Transferability.

This option shall not be transferable by Option Holder other than by will or the laws of descent and distribution, and shall be exercisable, during Option Holder's lifetime, only by Option Holder. From and after Option Holder's death, this option, to the extent exercisable at Option Holder's death, may be exercised prior to its termination by the person(s) to whom Option Holder's option rights pass by will or by the applicable laws of descent and distribution. Any attempted assignment, transfer, pledge, hypothecation or other disposition of this option in contravention of the terms hereof, and the levy of any execution, attachment or similar process upon this option, shall be null and void.

6. Adjustment for Capital Changes.

In the event of any stock dividend payable in shares of the Company's Common Stock or any split-up or contraction in the number of shares of the Company's Common Stock occurring after the date of this Agreement and prior to the exercise in full of this option, the number of shares subject hereto and the option price to be paid for each such share shall each be proportionately adjusted. In case of any reclassification or change of outstanding shares of the Company's Common Stock, occurring after the date of this Agreement and prior to the exercise in full of this option, the number and kind of shares of stock subject to this Agreement and the price to be paid for each share subject to this option shall each be proportionately adjusted. In the event of any consolidation or merger of the Company with or into another company with the Company not surviving, or upon dissolution or liquidation of the Company, this option shall terminate. No fraction of a share shall be purchasable or deliverable upon any exercise of this option, but, in the event any adjustment hereunder of the number of shares covered by this option shall cause such number to include a fraction of a share, such fraction shall be adjusted to the nearest smaller whole number or shares.

7. Prohibited Transfers and Right of First Refusal.

(a) The Option Holder shall not sell, assign, transfer, pledge, hypothecate, mortgage, encumber or dispose of all or any of his Option Shares except to the Company or as expressly provided in this Agreement. Notwithstanding the foregoing, the Option Holder may transfer any or all of his Option Shares (i) by way of gift to any member of his family (i.e., spouse, sibling, child (natural or adopted), or any other lineal ancestor or descendant) or to any trust, partnership or limited liability company for the benefit of, or the ownership interests of which are wholly owned by, any such family member of the Option Holder (each, a "Permitted Transferee"), or (ii) by will or the laws of descent and distribution to or for the benefit of a Permitted Transferee, provided that any such Permitted Transferee, as a condition to such transfer, shall execute an Instrument of Adherence in the form of Exhibit A hereto, agreeing to be bound by the terms of this Agreement to the same extent as if such Permitted Transferee were the Option Holder.

(b) If requested the Company and the managing underwriter, the Option Holder agrees to enter into a lock-up agreement pursuant to which the Option Holder will not, from the date of such agreement and through a period of no more than one hundred eighty (180) days following the effective date of the first registration statement for a public offering of the Company's securities, and for a period of no more than ninety (90) days following the effective day of any subsequent registration statement, sell, assign, transfer, pledge, hypothecate, mortgage or dispose of, by gift or otherwise, or in any way encumber, any of his Option Shares, except transfers permitted by Section 7(a) above.

(c) If, at any time the Option Holder desires to sell all or any part of the Option Shares and he has received in writing an irrevocable and unconditional bona fide offer (the "Bona Fide Offer") for the purchase of such Option Shares from a party (the "Offeror"), the Option Holder shall give written notice (the "Option Notice") to the Company setting forth his desire to sell such Option Shares, which Option Notice shall be accompanied by a photocopy of the original executed Bona Fide Offer and shall set forth at least the name and address of the Offeror and the price. The Company shall have an assignable option to purchase any or all of the Option Shares specified in the Option Notice, exercisable by giving, within thirty (30) days after the receipt of the Option Notice (the "Exercise Period"), a counter-notice in writing to the Option Holder. If the Company or its assignee elects to purchase any or all of such Option Shares, the Company or its assignee shall be obligated to purchase, and the Option Holder shall be obligated to sell to the Company or its assignee, such Option Shares at the price and terms indicated in the Bona Fide Offer, within sixty (60) days from the date of the Company's receipt of the Option Notice. The Option Holder may sell any or all of such Option Shares which the Company or its assignee has not so elected to purchase during the thirty (30) days following the expiration of the Exercise Period, provided that: (i) such sale shall only be made

pursuant to the terms of the Bona Fide Offer; (ii) the Option Holder shall not sell such Option Shares if the Offeror is a competitor of the Company and the Company gives written notice forbidding such sale to the Option Holder within the Exercise Period; and (iii) prior to the sale of such Option Shares to the Offeror, the Offeror shall execute an agreement with the Company pursuant to which the Offeror agrees to be subject to the restrictions on transfer and rights of first refusal set forth in this Section 7. If any and all such Option Shares are not sold pursuant to a Bona Fide Offer within such time period, the unsold Option Shares shall remain subject to the terms of this Agreement.

(d) The rights of first refusal provided in this Section 7 shall not apply (i) with respect to sales, transfers or exchanges of Option Shares to the Company or in conjunction with the sale of the Company to an unaffiliated third party whether by merger, consolidation or sale of stock in a transaction in which the Option Holder's Option Shares are also sold or transferred or eligible to be sold or transferred (herein, a "Sale of the Company") or (ii) on the first to occur of (x) the tenth (10th) anniversary of the date hereof or (y) immediately prior to the consummation of a firmly underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, covering the offer and sale of Common Stock for the account of the Company from which the aggregate net proceeds to the Company are at least \$15,000,000 and the price per share of such Common Stock is not less than \$5.00 (as equitably adjusted whenever there is a stock split, combination, stock dividend, reclassification or similar event affecting the Common Stock).

(e) Each certificate evidencing any of the Option Shares shall bear a legend substantially as follows:

"The shares represented by this certificate are subject to restrictions on transfer and may not be sold, exchanged, transferred, pledged, hypothecated or otherwise disposed of, whether voluntarily or by operation of law, except in accordance with and subject to all the terms and conditions of a certain Incentive Stock Option Agreement dated as of _____, 1999, as amended or amended and restated from time to time, a copy of which the Company will furnish to the holder of this certificate upon request and without charge."

8. Investment Representations.

(a) Restrictions. Regardless of whether the offering and sale of shares of the Option Stock under the Plan have been registered under the Securities Act or have been registered or qualified under the securities laws of any state, the Company may impose restrictions upon the sale, pledge or other transfer of Option Shares (including the placement of appropriate legends on stock certificates) if, in the judgment of the Company and its counsel, such restrictions are necessary or desirable in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state or any other laws.

(b) Investment Intent at Grant. Option Holder represents and agrees that the shares of Option Stock to be acquired upon exercising this option will be acquired for investment, and not with a view to the sale or distribution thereof.

(c) Investment and Intent at Exercise. In the event that the sale of shares of Option Stock under the Plan is not registered under the Securities Act, but an exemption from registration is available which requires an investment representation or other representation, Option Holder shall represent and agree at the time of exercise that the shares of Option Stock being acquired upon exercising this option are being acquired for investment, and not with a view to the sale or distribution thereof, and shall make such other reasonable investment representations as are deemed necessary or appropriate by the Company and its counsel.

(d) Legend. All certificates evidencing shares of Option Stock acquired under this Agreement in an unregistered transaction shall bear the following legend (and such other restrictive legends as are required or deemed advisable under the provisions of any applicable law):

"THE SHARES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, PLEDGED, OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED."

9. Rights as a Stockholder.

Option Holder shall not be deemed for any purpose to be a stockholder of the Company with respect to any shares subject to this option except to the extent that this option shall have been exercised with respect thereto and, in addition, a certificate shall have been issued therefor and delivered to Option Holder. No adjustment shall be made for dividends (ordinary or extraordinary, and whether in cash, securities or other property) or distributions or other rights for which the record date is prior to the date such certificate is issued, except as provided in Section 6.

10. Employment Rights.

This option shall not confer upon Option Holder any right with respect to the continuance of Option Holder's employment by the Company or by a parent or subsidiary of the Company, nor shall it interfere in any way with the right of any of such corporations to terminate such employment at any time.

11. Disqualifying Dispositions.

Option Holder understands that, in order to enjoy the benefits accruing to the holder of an incentive stock option under the Internal Revenue Code, Option Holder may not dispose of any shares transferred to Option Holder pursuant to Option Holder's exercise of this option either (i) within two years from the date of the granting of this option to Option Holder, or (ii) within one year after the transfer of such shares to Option Holder. The preceding sentence is not a prohibition on the disposal of any shares by Option Holder. Option Holder may dispose of any shares within the foregoing time periods subject to all applicable tax consequences.

12. Notices.

Any notice required or permitted to be given hereunder shall be in writing and shall be deemed to be properly given when sent by registered or certified mail, return receipt requested, by Federal Express, DHL, or other guaranteed overnight delivery service or by facsimile transmission, addressed as follows:

If to the Company: Omnia Communications, Inc.
100 Nickerson Road
Marlborough, MA 01752
Telecopy: (508) 229-7766

with a copy to: Hale and Dorr LLP
60 State Street
Boston, MA 02109
Attention: PeterB. Tarr, Esq.
Telecopy: (617) 526-5000

If to the Option Holder: _____

All notices, requests, consents and other communications hereunder shall be deemed to have been received (a) if by hand, at the time of the delivery thereof to the receiving party at the address of such party set forth above or as so designated, (b) if made by telecopy or facsimile transmission, at the time that receipt thereof has been acknowledged by electronic confirmation or otherwise, (c) if sent by overnight courier, on the next business day following the day such notice is delivered to the courier service, or (d) if sent by registered or certified mail, on the fifth (5th) business day following the day such mailing is made.

13. Waiver, Amendment and Termination.

The provisions of the Agreement may not waived, amended, modified or terminated except with written consent of the parties hereto.

14. Entire Agreement and Amendments.

This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof. To the extent any term or other provision of any other agreement or instrument by which any party hereto is bound conflicts with this Agreement, this Agreement shall have precedence over such conflicting term or provision.

15. Governing Law; Successors and Assigns.

This Agreement shall be governed by the laws of the Commonwealth of Massachusetts (without regard to choice of law provisions) and shall be binding upon the heirs, personal representatives, executors, administrators, successors and permitted assigns of the parties.

16. Waivers.

No waiver of any breach or default hereunder shall be considered valid unless in writing, and no such waiver shall be deemed a waiver of any subsequent breach or default of the same or similar nature.

17. Severability.

If any provision of this Agreement shall be held to be illegal, invalid or unenforceable, such illegality, invalidity or unenforceability shall attach only to such provision and shall not in any manner affect or render illegal, invalid or unenforceable any other provision of this Agreement, and this Agreement shall be carried out as if any such illegal, invalid or unenforceable provision were not contained herein.

18. Captions.

Captions are for convenience only and are not deemed to be part of this Agreement.

19. Counterparts.

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, this Agreement has been executed as of the date and year first above written.

OMNIA COMMUNICATIONS, INC.

By: _____

OPTION HOLDER:

OMNIA COMMUNICATIONS, INC.

NON-QUALIFIED STOCK OPTION AGREEMENT

(OPTION HOLDER: _____)

AGREEMENT made as of the ____ day of _____, 1998 between Omnia Communications, Inc., a Delaware corporation (the "Company"), and _____ of _____ (the "Option Holder").

WHEREAS, the Company desires to provide the Option Holder with an incentive to promote the business of the Company and to encourage the Option Holder to continue his employment; and

WHEREAS, to effectuate that desire the Company has determined to grant to the Option Holder a non-qualified stock option to purchase shares of the Company's common stock under and pursuant to the terms and provisions of the Company's 1997 Stock Option Plan (the "Plan").

NOW, THEREFORE, the Company and the Option Holder agree as follows:

1. Grant of Option.

The Company hereby grants to Option Holder the option to purchase _____ (_____) shares (the "Option Shares") of the Company's Common Stock, \$0.001 par value, at a price per share equal to \$_____, in the manner and subject to the conditions hereinafter provided. This option is granted pursuant to and subject to all of the terms and conditions of the Plan and, unless the context otherwise requires, terms used herein shall have the same meaning as in the Plan. Determinations made in connection with this option shall be governed by the Plan as it exists on this date and, in the event of any inconsistency or conflict between this Agreement and the Plan, the terms of the Plan shall govern.

2. Time of Exercise.

Option Holder may exercise this option from _____ to and including _____, the end of [ten] years from the date this Option is granted, provided that no portion of this Stock Option may be exercised until such portion shall have vested. Except as set forth below, this Stock Option shall be vested and exercisable as follows: 1/36 of the total number of Option Shares shall vest and become exercisable in equal monthly increments commencing one year after the date hereof, such that the Option Holder may exercise this option as to all of the Option Shares forty-eight (48) months from the date hereof.

Notwithstanding the foregoing, the Option Holder may exercise this option as to 50% of all then unvested Option Shares upon a Change of Control Transaction, as defined below, and all remaining unvested Option Shares shall vest and become exercisable in equal increments over the following twelve (12) months. For purposes of this Agreement, the term "Change of Control Transaction" means any single or related series of transactions after which more than fifty (50%) percent of the voting stock of the Company outstanding immediately after the effective date of such Change of Control Transaction is owned of record or beneficially by persons other than the holders of such capital stock immediately prior to such Change of Control Transaction.

3. Method of Exercise.

Each exercise of this option shall be effected by giving written notice of intent to exercise this option, specifying the number of shares of stock as to which the option is being exercised, and accompanied by full payment of the option price for the number of shares then being acquired. Payment shall be made in cash, by certified or bank check payable to the order of the Company, or, with the consent of the Company's Board of Directors given at the time of exercise of this option (which may be granted or withheld by said Board in its sole and absolute discretion), (i) in shares by the Company's Common Stock having an aggregate fair market value, at the time of payment, equal to the option price for the number of shares of stock for which Option Holder is then making payment, or (ii) partly in cash or by certified or bank check payable to the order of the Company and the balance in shares of the Company's Common Stock having an aggregate fair market value, at the time of

such payment, equal to the difference between the option price for the number of shares of stock for which payment is then being made and the amount of the payment in cash or by certified or bank check; provided, however, that no part of the purchase price for any shares being purchased pursuant to an exercise of this option shall be paid in shares of the Company's Common Stock which were previously acquired by Option Holder (x) pursuant to an earlier exercise of this option, or (y) pursuant to the exercise of another incentive stock option granted by the Company if the previously acquired shares have been held by Option Holder for less than two years since the date of the granting of such other option to Option Holder or for less than one year since the transfer to Option Holder of such previously acquired shares. The determination of fair market value shall be made by the Board of Directors of the Company, whose determination in this regard shall be final and binding on the Company and on Option Holder.

Receipt by the Company of such notice and payment shall constitute exercise of this option or a part hereof. Promptly thereafter, the Company shall deliver or cause to be delivered to Option Holder a certificate or certificates for the number of shares of the Company's Common Stock being acquired pursuant to such exercise. Such shares shall be fully paid and nonassessable. Notwithstanding the foregoing, the Company shall not be required to issue such shares unless a registration statement under the Securities Act of 1933, as amended (the "Securities Act") is in effect with respect to such shares or the Company has received evidence satisfactory to the Company that Option Holder may acquire such shares pursuant to an exemption from registration under the Securities Act. In addition, as to any jurisdiction (other than the United States) that expressly imposes the requirement that this option shall not be exercisable unless and until the shares of Stock covered by this option are registered or are subject to an available exemption from registration, the exercise of this option shall, notwithstanding anything to the contrary contained herein, be deemed conditioned upon the effectiveness of such registration or the availability of such an exemption. Any determination in that regard by the Company shall be final and conclusive. The Company shall not be obligated to take any affirmative action in order to cause the exercise of this option or the issuance of shares of Stock pursuant hereto to comply with any law or regulation of any governmental authority.

4. Termination of Employment.

This option shall, to the extent not previously exercised, expire immediately upon the termination (voluntary or involuntary) of Option Holder's employment with the Company or with a parent or subsidiary of the Company.

5. Non-Transferability.

This option shall not be transferable by Option Holder other than by will or the laws of descent and distribution, and shall be exercisable, during Option Holder's lifetime, only by Option Holder. From and after Option Holder's death, this option, to the extent exercisable at Option Holder's death, may be exercised prior to its termination by the person(s) to whom Option Holder's option rights pass by will or by the applicable laws of descent and distribution. Any attempted assignment, transfer, pledge, hypothecation or other disposition of this option in contravention of the terms hereof, and the levy of any execution, attachment or similar process upon this option, shall be null and void.

6. Adjustment for Capital Changes.

In the event of any stock dividend payable in shares of the Company's Common Stock or any split-up or contraction in the number of shares of the Company's Common Stock occurring after the date of this Agreement and prior to the exercise in full of this option, the number of shares subject hereto and the option price to be paid for each such share shall each be proportionately adjusted. In case of any reclassification or change of outstanding shares of the Company's Common Stock, occurring after the date of this Agreement and prior to the exercise in full of this option, the number and kind of shares of stock subject to this Agreement and the price to be paid for each share subject to this option shall each be proportionately adjusted. In the event of any consolidation or merger of the Company with or into another company with the Company not surviving, or upon dissolution or liquidation of the Company, this option shall terminate. No fraction of a share shall be purchasable or deliverable upon any exercise of this option, but, in the event any adjustment hereunder of the number of shares covered by this option shall cause such number to include a fraction of a share, such fraction shall be adjusted to the nearest smaller whole number or shares.

7. Prohibited Transfers and Right of First Refusal.

(a) The Option Holder shall not sell, assign, transfer, pledge, hypothecate, mortgage, encumber or dispose of all or any of his Option Shares except to the Company or as expressly provided in this Agreement. Notwithstanding the foregoing,

the Option Holder may transfer any or all of his Option Shares (i) by way of gift to any member of his family (i.e., spouse, sibling, child (natural or adopted), or any other lineal ancestor or descendant) or to any trust, partnership or limited liability company for the benefit of, or the ownership interests of which are wholly owned by, any such family member of the Option Holder (each, a "Permitted Transferee"), or (ii) by will or the laws of descent and distribution to or for the benefit of a Permitted Transferee, provided that any such Permitted Transferee, as a condition to such transfer, shall execute an Instrument of Adherence in the form of Exhibit A hereto, agreeing to be bound by the terms of this Agreement to the same extent as if such Permitted Transferee were the Option Holder.

(b) If requested the Company and the managing underwriter, the Option Holder agrees to enter into a lock-up agreement pursuant to which the Option Holder will not, from the date of such agreement and through a period of no more than one hundred eighty (180) days following the effective date of the first registration statement for a public offering of the Company's securities, and for a period of no more than ninety (90) days following the effective day of any subsequent registration statement, sell, assign, transfer, pledge, hypothecate, mortgage or dispose of, by gift or otherwise, or in any way encumber, any of his Option Shares, except transfers permitted by Section 7(a) above.

(c) If, at any time the Option Holder desires to sell all or any part of the Option Shares and he has received in writing an irrevocable and unconditional bona fide offer (the "Bona Fide Offer") for the purchase of such Option Shares from a party (the "Offeror"), the Option Holder shall give written notice (the "Option Notice") to the Company setting forth his desire to sell such Option Shares, which Option Notice shall be accompanied by a photocopy of the original executed Bona Fide Offer and shall set forth at least the name and address of the Offeror and the price. The Company shall have an assignable option to purchase any or all of the Option Shares specified in the Option Notice, exercisable by giving, within thirty (30) days after the receipt of the Option Notice (the "Exercise Period"), a counter-notice in writing to the Option Holder. If the Company or its assignee elects to purchase any or all of such Option Shares, the Company or its assignee shall be obligated to purchase, and the Option Holder shall be obligated to sell to the Company or its assignee, such Option Shares at the price and terms indicated in the Bona Fide Offer, within sixty (60) days from the date of the Company's receipt of the Option Notice. The Option Holder may sell any or all of such Option Shares which the Company or its assignee has not so elected to purchase during the thirty (30) days following the expiration of the Exercise Period, provided that: (i) such sale shall only be made pursuant to the terms of the Bona Fide Offer; (ii) the Option Holder shall not sell such Option Shares if the Offeror is a competitor of the Company and the Company gives written notice forbidding such sale to the Option Holder within the Exercise Period; and (iii) prior to the sale of such Option Shares to the Offeror, the Offeror shall execute an agreement with the Company pursuant to which the Offeror agrees to be subject to the restrictions on transfer and rights of first refusal set forth in this Section 7. If any and all such Option Shares are not sold pursuant to a Bona Fide Offer within such time period, the unsold Option Shares shall remain subject to the terms of this Agreement.

(d) The rights of first refusal provided in this Section 7 shall not apply (i) with respect to sales, transfers or exchanges of Option Shares to the Company or in conjunction with the sale of the Company to an unaffiliated third party whether by merger, consolidation or sale of stock in a transaction in which the Option Holder's Option Shares are also sold or transferred or eligible to be sold or transferred (herein, a "Sale of the Company") or (ii) on the first to occur of (x) the tenth (10th) anniversary of the date hereof or (y) immediately prior to the consummation of a firmly underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, covering the offer and sale of Common Stock for the account of the Company from which the aggregate net proceeds to the Company are at least \$15,000,000 and the price per share of such Common Stock is not less than \$5.00 (as equitably adjusted whenever there is a stock split, combination, stock dividend, reclassification or similar event affecting the Common Stock).

(e) Each certificate evidencing any of the Option Shares shall bear a legend substantially as follows:

"The shares represented by this certificate are subject to restrictions on transfer and may not be sold, exchanged, transferred, pledged, hypothecated or otherwise disposed of, whether voluntarily or by operation of law, except in accordance with and subject to all the terms and conditions of a certain Incentive Stock Option Agreement dated as of _____, 1998, as amended or amended and restated from time to time, a copy of which the Company will furnish to the holder of this certificate upon request and without charge."

8. Investment Representations.

(a) Restrictions. Regardless of whether the offering and sale of shares of the Option Stock under the Plan have

been registered under the Securities Act or have been registered or qualified under the securities laws of any state, the Company may impose restrictions upon the sale, pledge or other transfer of Option Shares (including the placement of appropriate legends on stock certificates) if, in the judgment of the Company and its counsel, such restrictions are necessary or desirable in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state or any other laws.

(b) Investment Intent at Grant. Option Holder represents and agrees that the shares of Option Stock to be acquired upon exercising this option will be acquired for investment, and not with a view to the sale or distribution thereof.

(c) Investment and Intent at Exercise. In the event that the sale of shares of Option Stock under the Plan is not registered under the Securities Act, but an exemption from registration is available which requires an investment representation or other representation, Option Holder shall represent and agree at the time of exercise that the shares of Option Stock being acquired upon exercising this option are being acquired for investment, and not with a view to the sale or distribution thereof, and shall make such other reasonable investment representations as are deemed necessary or appropriate by the Company and its counsel.

(d) Legend. All certificates evidencing shares of Option Stock acquired under this Agreement in an unregistered transaction shall bear the following legend (and such other restrictive legends as are required or deemed advisable under the provisions of any applicable law):

"THE SHARES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, PLEDGED, OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER SUCH ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED."

9. Rights as a Stockholder.

Option Holder shall not be deemed for any purpose to be a stockholder of the Company with respect to any shares subject to this option except to the extent that this option shall have been exercised with respect thereto and, in addition, a certificate shall have been issued therefor and delivered to Option Holder. No adjustment shall be made for dividends (ordinary or extraordinary, and whether in cash, securities or other property) or distributions or other rights for which the record date is prior to the date such certificate is issued, except as provided in Section 6.

10. Employment Rights.

This option shall not confer upon Option Holder any right with respect to the continuance of Option Holder's employment by the Company or by a parent or subsidiary of the Company, nor shall it interfere in any way with the right of any of such corporations to terminate such employment at any time.

11. Tax Consequences and Withholding Taxes.

The Option Holder recognizes that this option is being granted as a result of his performance of services for the Company and that, under current federal income tax laws, the Option Holder must include as gross income, for any year in which the Option Holder exercises any options hereunder, the excess of the fair market value of the Option Shares acquired over the amount paid for such Option Shares and that, as the Company is obligated to withhold certain federal and state taxes in connection with Option Holder's exercise, the Option Holder agrees to pay to the Company the amount of any such required withholding

12. Notices.

Any notice required or permitted to be given hereunder shall be in writing and shall be deemed to be properly given when sent by registered or certified mail, return receipt requested, by Federal Express, DHL, or other guaranteed overnight delivery service or by facsimile transmission, addressed as follows:

If to the Company: Omnia Communications, Inc.
100 Nickerson Road
Marlborough, MA 01752
Telecopy: (508) 229-7766

with a copy to: Posternak, Blankstein & Lund, L.L.P.
100 Charles River Plaza
Boston, MA 02114
Attention: Donald H. Siegel, P.C.
Telecopy: (617) 367-2315

If to the Option Holder: _____

All notices, requests, consents and other communications hereunder shall be deemed to have been received (a) if by hand, at the time of the delivery thereof to the receiving party at the address of such party set forth above or as so designated, (b) if made by telecopy or facsimile transmission, at the time that receipt thereof has been acknowledged by electronic confirmation or otherwise, (c) if sent by overnight courier, on the next business day following the day such notice is delivered to the courier service, or (d) if sent by registered or certified mail, on the fifth (5th) business day following the day such mailing is made.

13. Waiver, Amendment and Termination.

The provisions of the Agreement may not waived, amended, modified or terminated except with written consent of the parties hereto.

14. Entire Agreement and Amendments.

This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof. To the extent any term or other provision of any other agreement or instrument by which any party hereto is bound conflicts with this Agreement, this Agreement shall have precedence over such conflicting term or provision.

15. Governing Law; Successors and Assigns.

This Agreement shall be governed by the laws of the Commonwealth of Massachusetts (without regard to choice of law provisions) and shall be binding upon the heirs, personal representatives, executors, administrators, successors and permitted assigns of the parties.

16. Waivers.

No waiver of any breach or default hereunder shall be considered valid unless in writing, and no such waiver shall be deemed a waiver of any subsequent breach or default of the same or similar nature.

17. Severability.

If any provision of this Agreement shall be held to be illegal, invalid or unenforceable, such illegality, invalidity or unenforceability shall attach only to such provision and shall not in any manner affect or render illegal, invalid or

unenforceable any other provision of this Agreement, and this Agreement shall be carried out as if any such illegal, invalid or unenforceable provision were not contained herein.

18. Captions.

Captions are for convenience only and are not deemed to be part of this Agreement.

19. Counterparts.

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, this Agreement has been executed as of the date and year first above written.

OMNIA COMMUNICATIONS, INC.

By: _____

OPTION HOLDER:

OMNIA COMMUNICATIONS, INC.

RESTRICTED STOCK PURCHASE AGREEMENT

(Stockholder: _____)

AGREEMENT made as of the day of _____, 1999 between Omnia Communications, Inc., a Delaware corporation (the "Company"), and _____ (the "Stockholder").

WHEREAS, the Company desires to provide the Stockholder with an incentive to promote the business of the Company and to encourage the Stockholder to continue his employment; and

WHEREAS, to effectuate that desire the Company has determined to offer to the Stockholder an opportunity to purchase shares of the Company's common stock under and pursuant to the terms and provisions of the Company's 1997 Stock Option Plan (the "Plan").

NOW, THEREFORE, the Company and the Stockholder agree as follows:

1. Defined Terms. As used in this Agreement, the following terms shall have the following respective meanings:

(a) "Shares" shall mean all shares of Stock now owned or hereafter acquired by the Stockholder.

(b) "Stock" shall mean all shares of Common Stock, and all other securities of the Company which may be issued in exchange for or in respect of shares of Common Stock (whether by way of stock split, stock dividend, combination, reclassification, reorganization, or any other means).

(c) "Unvested Shares" shall mean the shares of Common Stock now or hereafter owned by the Stockholder and which are subject to repurchase on certain events as set forth in Section 4 hereof.

(d) "Vested Shares" shall mean the shares of Common Stock now or hereafter owned by the Stockholder which are not, or no longer subject to, repurchase in accordance with the provisions of Section 4 hereof.

2. Acquisition of Shares.

(a) The Stockholder hereby subscribes for _____ shares of Stock, at a price of \$0.33 per share, for an aggregate purchase price of \$_____.

(b) The Stockholder represents, warrants and covenants as follows:

(i) The Stockholder is acquiring his Shares for his own account for investment only, and not with a view to, or for sale in connection with, any distribution in violation of the Securities Act of 1933, as amended (the "Securities Act"), or any rule or regulation under the Securities Act.

(ii) He has had such opportunity as he has deemed adequate to obtain from representatives of the Company such information as is necessary to permit him to evaluate the merits and risks of an investment in the Company.

(iii) He has sufficient experience in business, financial and investment matters to be able to evaluate the risks involved in an investment in the Shares and to make an informed investment decision with respect to such investment.

(iv) He can afford the complete loss of the value of the Shares and is able to bear the economic risk of holding such Shares for an indefinite period.

(v) He understands that (x) the Restricted Shares have not been registered under the Securities Act and are "restricted securities" within the meaning of Rule 144 under the Securities Act, (y) the Restricted Shares cannot be

sold, transferred or otherwise disposed of unless they are subsequently registered under the Securities Act or an exemption from registration is then available; (z) in any event, the exemption from registration under Rule 144 will not be available unless a public market then exists for the Common Stock, adequate information concerning the Company is then available to the public, and other terms and conditions of Rule 144 are complied with; and (aa) there is now no registration statement on file with the Securities and Exchange Commission with respect to any stock of the Company and the Company has no obligation or current intention to register the Shares under the Securities Act.

3. Prohibited Transfers.

(a) The Stockholder shall not sell, assign, transfer, pledge, hypothecate, mortgage, encumber or dispose of all or any of his Shares except to the Company or as expressly provided in this Agreement. Notwithstanding the foregoing, the Stockholder may transfer any or all of his Shares (i) by way of gift to any member of his family (i.e., spouse, sibling, child (natural or adopted), or any other lineal ancestor or descendant) or to any trust, partnership or limited liability company for the benefit of, or the ownership interests of which are wholly owned by, any such family member of the Stockholder (each, a "Permitted Transferee"), or (ii) by will or the laws of descent and distribution to or for the benefit of a Permitted Transferee, provided that any such Permitted Transferee, as a condition to such transfer, shall execute an Instrument of Adherence in the form of Exhibit A hereto, agreeing to be bound by the terms of this Agreement to the same extent as if such Permitted Transferee were the Stockholder and, without limiting the foregoing, shall comply with the provisions of Section 5(d) below.

(b) If requested by the Company and the managing underwriter, the Stockholder agrees to enter into a lock-up agreement pursuant to which the Stockholder will not, from the date of such agreement and through a period of no more than 180 days following the effective date of the first registration statement for a public offering of the Company's securities, and for a period of no more than 90 days following the effective date of any subsequent registration statement, sell, assign, transfer, pledge, hypothecate, mortgage or dispose of, by gift or otherwise, or in any way encumber, any of his Shares, except transfers permitted by Section 3(a) above.

4. Right of First Refusal on Dispositions.

(a) If, at any time the Stockholder desires to sell all or any part of the Vested Shares and he has received in writing an irrevocable and unconditional bona fide offer (the "Bona Fide Offer") for the purchase of such Vested Shares from a party (the "Offeror"), the Stockholder shall give written notice (the "Option Notice") to the Company setting forth his desire to sell such Vested Shares, which Option Notice shall be accompanied by a photocopy of the original executed Bona Fide Offer and shall set forth at least the name and address of the Offeror and the price. The Company shall have an assignable option to purchase any or all of the Vested Shares specified in the Option Notice, exercisable by giving, within thirty (30) days after the receipt of the Option Notice (the "Exercise Period"), a counter-notice in writing to the Stockholder. If the Company or its assignee elects to purchase any or all of such Vested Shares, the Company or its assignee shall be obligated to purchase, and the Stockholder shall be obligated to sell to the Company or its assignee, such Vested Shares at the price and terms indicated in the Bona Fide Offer, within sixty (60) days from the date of the Company's receipt of the Option Notice. The Stockholder may sell any or all of such Vested Shares which the Company or its assignee has not so elected to purchase during the thirty (30) days following the expiration of the Exercise Period, provided that: (i) such sale shall only be made pursuant to the terms of the Bona Fide Offer; (ii) the Stockholder shall not sell such Vested Shares if the Offeror is a competitor of the Company and the Company gives written notice forbidding such sale to the Stockholder within the Exercise Period; and (iii) prior to the sale of such Vested Shares to the Offeror, the Offeror shall execute an agreement with the Company pursuant to which the Offeror agrees to be subject to the restrictions on transfer and rights of first refusal set forth in Sections 4 and 5 hereof. If any and all such Vested Shares are not sold pursuant to a Bona Fide Offer within such time period, the unsold Vested Shares shall remain subject to the terms of this Agreement.

(b) The rights of first refusal provided in this Section 4 shall not apply with respect to sales, transfers or exchanges of Shares to the Company or in conjunction with the sale of the Company to an unaffiliated third party whether by merger, consolidation or sale of stock in a transaction in which the Stockholder's Shares are also sold or transferred or eligible to be sold or transferred (herein, a "Sale of the Company").

5. Option to Repurchase Certain Shares of the Stockholder Upon Termination of Employment.

(a) If the Stockholder shall cease to be employed by the Company for any reason, with or without cause, the Company may within seventy-five (75) days from the date upon which the Stockholder shall so cease to be employed (the "Termination Date"), exercise its option under this Section 5 to purchase from the Stockholder all or part of his Unvested Shares as of the Termination Date, as provided in Section 5(b) hereof.

(b) The Shares subject to purchase under this section, i.e., Unvested Shares, shall initially be all of the Shares purchased by the Stockholder hereunder (such number of Shares being subject to equitable adjustment for any stock split, stock dividend, combination of shares or the like and based upon Common Stock or Common Stock equivalents). Such Shares shall be released from the right of purchase set forth herein, and thereupon become Vested Shares as follows: no shares shall vest for one year from the Commencement Date set forth on the signature page hereto; thereafter, the Shares shall vest in thirty-six (36) equal monthly increments, such that all Unvested Shares shall become Vested Shares forty-eight (48) months after the Commencement Date.

(c) Notwithstanding the foregoing, upon a Change of Control Transaction (as defined in Section 5(h)), 50% of any then remaining Unvested Shares shall become Vested Shares and all remaining Unvested Shares shall become vested in equal increments over the following twelve (12) months.

(d) The Stockholder shall, simultaneously with the Closing under the Stock Purchase Agreement of even date herewith, deliver to and deposit with Hale and Dorr LLP, as escrow agent (the "Escrow Agent"), pursuant to the Escrow Instructions attached hereto as Exhibit B ("Escrow Instructions"), the stock certificate(s) evidencing all of the Stockholder's Unvested Shares, together with undated assignments therefor duly endorsed for transfer in blank.

(e) The purchase price of any Unvested Shares for which the Company exercises its option under this Section 5 (the "Option Price") shall be \$.33 per Share (such price being subject to equitable adjustment for any stock split, stock dividend, combination of shares or the like affecting the Common Stock).

(f) If the Company desires to exercise its option to purchase, it shall do so by communicating in writing its election to purchase to the Stockholder, which communication shall state the basis for the Company's right to purchase the Unvested Shares, the number of Unvested Shares the Company is electing to purchase and the aggregate Option Price and shall be delivered in person or mailed to the Stockholder at his address set forth in accordance with Section 15 below within the seventy-five (75) day period provided for in Section 5(a). A copy of such notice accompanied by a request to release such Shares from escrow shall be sent to the Escrow Agent. The sale of the Shares to be sold to the Company pursuant to this Section 5 shall be made at the principal executive office of the Company on the 15th day following the date of the Company's written election to purchase (or if such 15th day is not a business day, then on the next succeeding business day). Such sale shall be effected by release from escrow and delivery to the Company of (i) a certificate or certificates evidencing the Shares to be purchased by it, and (ii) stock assignments therefor endorsed by the Stockholder for transfer to the Company, against payment by the Company to the Stockholder of the aggregate Option Price for such Shares to be purchased by the Company.

(g) Any Vested Shares held in escrow shall be released to the Stockholder upon written request by the Stockholder in compliance with the provisions of the Escrow Instructions.

(h) For purposes of this Agreement, the term "Change of Control Transaction" means any single or related series of transactions after which more than fifty (50%) percent of the voting stock of the Company outstanding immediately after the effective date of such Change of Control Transaction is owned or beneficially by persons other than the holders of such capital stock immediately prior to such Change of Control Transaction.

6. Failure to Deliver Shares. If the Stockholder (or his legal representative) becomes obligated to sell Shares to the Company or its assignee under this Agreement and fails to deliver such Shares to the Company or its assignee in accordance with the terms of this Agreement, the Company or its assignee may, at its option, in addition to all other remedies it may have, send to the Stockholder (or his legal representative) by registered mail, return receipt requested, the purchase price for such Shares as is herein specified. Thereupon, the Company, upon written notice to the Stockholder,

11. Entire Agreement and Amendments. This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof. To the extent any term or other provision of any other agreement or instrument by which any party hereto is bound conflicts with this Agreement, this Agreement shall have precedence over such conflicting term or provision.

12. Governing Law; Successors and Assigns. This Agreement shall be governed by the laws of the Commonwealth of Massachusetts (without regard to choice of law provisions) and shall be binding upon the heirs, personal representatives, executors, administrators, successors and permitted assigns of the parties.

13. Waivers. No waiver of any breach or default hereunder shall be considered valid unless in writing, and no such waiver shall be deemed a waiver of any subsequent breach or default of the same or similar nature.

14. Severability. If any provision of this Agreement shall be held to be illegal, invalid or unenforceable, such illegality, invalidity or unenforceability shall attach only to such provision and shall not in any manner affect or render illegal, invalid or unenforceable any other provision of this Agreement, and this Agreement shall be carried out as if any such illegal, invalid or unenforceable provision were not contained herein.

15. Captions. Captions are for convenience only and are not deemed to be part of this Agreement.

16. Continuation of Employment. Nothing in this Agreement shall create an obligation on the Company to continue the Stockholder's employment with the Company.

17. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, this Agreement has been executed as of the date and year first above written.

OMNIA COMMUNICATIONS, INC.

By: _____

Name:

Title:

STOCKHOLDER:

Commencement Date (for purposes of Section 5(b)): _____.

EXHIBIT A

OMNIA COMMUNICATIONS, INC.

RESTRICTED STOCK PURCHASE AGREEMENT

INSTRUMENT OF ADHERENCE

The undersigned, a holder of shares of Common Stock, \$0.001 par value, of Omnia Communications, Inc., a Delaware corporation (the "Company"), hereby joins in and agrees to be bound by all the terms and provisions of that certain Restricted Stock Purchase Agreement dated as of _____, _____, shall for all purposes be deemed to be the Stockholder thereunder, subject to all of the obligations of the Stockholder set forth therein, and hereby agrees that all shares of Common Stock now or hereafter held by the undersigned shall be subject to the restrictions on transfer, rights of purchase and co-sale and other provisions of said Agreement.

EXECUTED on this ___ day of _____, _____.

EXHIBIT B

OMNIA COMMUNICATIONS, INC.

RESTRICTED STOCK PURCHASE AGREEMENT

ESCROW INSTRUCTIONS

_____, 1999

Hale and Dorr LLP
60 State Street
Boston, MA 02109

Ladies and Gentlemen:

Simultaneous herewith _____ (the "Stockholder") is depositing in escrow with you _____ shares of Common Stock (and undated stock assignments therefor) of Omnia Communications, Inc. (the "Company") (the Stockholder and the Company are called singularly "Party" and collectively "Parties") pursuant to the provisions of Section 5 of that certain Restricted Stock Purchase Agreement of even date by and between the Company and the Stockholder (the "Agreement"). All defined terms used herein and not otherwise defined have the meanings set forth in the Agreement. You are hereby authorized and directed to hold the stock certificates for such shares (herein the "Escrow Shares") and all stock assignments therefor in escrow for the benefit of the Company and the Stockholder, and to release same to the Stockholder or to the Company in accordance with the following instructions:

If the Company shall have the right to purchase all or any of the Escrow Shares, or the Stockholder shall have the right to a release of any of the Escrow Shares, in either case pursuant to the applicable provisions of Section 4, the Party entitled to purchase or to the release of such Escrow Shares (the "Requesting Party") shall give written notice (the "Release Notice") hereof to you, as Escrow Agent, and to the other Party, specifying the number of Escrow Shares to be released and the reason for the release thereof (you may also send a copy of such Release Notice to the other party). You are authorized and directed to release the Escrow Shares and related stock assignments therefor referred to in the Release Notice of the Requesting Party to the Requesting Party ten business days after (i) receipt by you of the Release Notice from the Requesting Party and (ii) your sending of a copy of such Release Notice to the other Party, unless within such time period you have received written instructions not to do so from the other Party; provided, however, that if, within such 10-day period the other Party consents in writing delivered to you, to the Requesting Party's request, then you may release such shares upon receipt of such consent, if earlier than the 10-day period described above.

If you receive contrary notices or instructions from the Parties, you shall continue to hold such Escrow Shares until directed to dispose of same by written agreement signed by both the Company and the Stockholder, or as provided in an order of a court of competent jurisdiction, which order has become final after expiration of all appeal periods without appeal being taken.

The Parties hereto agree that your duties as Escrow Agent hereunder are solely ministerial in nature. You shall not be deemed to be the agent of any Party hereto, nor to have any legal or beneficial interest in the Escrow Shares. The Parties agree that you, as Escrow Agent, shall not be liable for any act or omission taken or suffered in good faith hereunder, unless such act or omission is a result of your gross negligence or willful misconduct.

You shall not be obligated to transfer any Escrow Shares or other items held by you hereunder, unless the provisions of these Escrow Instructions have been complied with by the Parties hereto. You shall not be responsible in any manner for the validity or sufficiency of any notice received by you hereunder from any Party, and believed by you to be genuine. You shall be fully protected and indemnified by each of the Company and the Stockholder with respect to any action taken or suffered hereunder in good faith by you, and each of the Company and the Stockholder agrees to so indemnify you and hold you harmless from and against any and all costs, claims, expenses and liabilities (including reasonable attorneys' fees and expenses). You may consult with counsel, which may be members of your firm, and shall be fully protected with respect to any action taken or suffered hereunder in good faith by you in accordance with the opinion of such counsel. You shall not be bound or in any way affected by any notice of any modification, cancellation, abrogation or rescission hereof, or of any fact or circumstances affecting or alleged to affect the rights and liabilities of the Parties hereto other than as expressly set forth herein, unless such modification, cancellation, abrogation, rescission, fact or circumstance is communicated to you in writing. Nor, in the case of any modification hereto, unless such modification shall be satisfactory to you and assented to in writing by

you. You may resign effective upon notice to the Company and the Stockholder and delivery of the Escrow Shares and related stock assignments to a successor designated by the Parties hereto.

You are hereby expressly authorized to comply with and obey all orders, judgments or decrees of any court of competent jurisdiction. In case you obey or comply with any such order, judgment or decree of any court, you shall not be liable to any of the Parties hereto or to any other person, firm or corporation, by reason of such compliance, notwithstanding that any such order, judgment or decree shall subsequently be reversed, modified annulled, set aside or vacated or found to have been entered into without jurisdiction.

By signing this letter you become party hereto only for the purpose of acting as Escrow Agent and you do not become a party to the Agreement.

The provisions hereof shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts (without regard to choice of law provisions).

OMNIA COMMUNICATIONS, INC.

By: _____

Name:

Title:

STOCKHOLDER: _____

RECEIVED AND AGREED TO:

HALE AND DORR LLP

By: _____

Peter B. Tarr, Esq.

STOCK ASSIGNMENT

For the value received, the undersigned, _____ hereby gives, assigns, and transfers unto _____, _____ shares of the Common Stock of Omnia Communications, Inc., a Delaware corporation, standing in my name on the books of said corporation and represented by Stock Certificate No. ____ herewith, and do hereby irrevocably constitute and appoint _____ attorney to transfer the said stock on the books of said corporation with full power of substitution in the premises.

IN WITNESS WHEREOF, the undersigned has hereunto set the undersigned's hand and seal this _____ day of _____, 1999.

In presence of: _____

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE BALANCE SHEET, STATEMENT OF OPERATION AND STATEMENT OF CASH FLOWS INCLUDED IN CIENA'S FORM 10-Q FOR THE PERIOD ENDING JULY 31, 1999, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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3-MOS		
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	MAY-01-1999	
	JUL-31-1999	
		142,599
		155,657
		104,684
		1,528
		64,638
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		204,224
		75,891
	644,897	
	88,775	
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		1,373
		541,021
644,897		
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