FORM 8-K

Current report filing

Filing Date: **1999-10-27** | Period of Report: **1999-10-18**
SEC Accession No. 0000891618-99-004733

FILER

CLARIFY INC
CIK:**1000782**| IRS No.: **770259235** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **8-K** | Act: **34** | File No.: **000-26776** | Film No.: **99734307**
SIC: **7372** Prepackaged software

Mailing Address
2125 ONEL DRIVE
SAN JOSE CA 95131

Business Address
2125 ONEL DRIVE
SAN JOSE CA 95134
4089657000

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

Current Report Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 18, 1999

CLARIFY INC.
(Exact name of Registrant as specified in its charter)

Delaware	0-26776	77-0259235
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

2560 Orchard Parkway
San Jose, California 95131
(Address of principal executive offices) (Zip code)

(408) 965-7000
(Registrant's telephone number, including area code)

N/A
(Former name or former address, if changed since last report)

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ITEM 5. OTHER EVENTS

On October 18, 1999, Clarify Inc., a Delaware corporation ("Clarify"), and Nortel Networks Corporation, a corporation organized under the laws of Canada ("Nortel"), entered into a definitive agreement and plan of merger (the "Merger Agreement") pursuant to which Nortel, through its wholly-owned subsidiary Northern Crown Subsidiary, Inc., a Delaware corporation ("Northern Sub"), will acquire all of the outstanding common stock of Clarify. The Merger Agreement provides that Northern Sub will merge with and into Clarify with Clarify being the surviving corporation (the "Merger"). Following the Merger, Clarify will be a wholly-owned subsidiary of Nortel.

Pursuant to the Merger Agreement and subject to the terms and conditions set forth therein, each share of Clarify common stock will be converted into the right to receive 1.3 common shares of Nortel, subject to proportional adjustment in the event Nortel effects a stock split, stock dividend, recapitalization or similar transaction with respect to its outstanding common shares prior to the effective time of the Merger. The boards of directors of the two companies have

approved the transactions contemplated by the Merger Agreement, including the Merger.

The closing of the Merger is subject to a number of customary conditions, including approval of the stockholders of Clarify, approval under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and certain other regulatory filings and approvals. The Merger is intended to be tax-free to the stockholders of Clarify.

In connection with the execution of the Merger Agreement, the parties entered into a Stock Option Agreement dated as of October 18, 1999 (the "Stock Option Agreement") pursuant to which, and subject to the terms and conditions set forth therein, Clarify granted to Nortel an option to purchase up to approximately 19.9% of the outstanding common shares of Clarify in the event that the Merger is not consummated.

Additionally, Nortel and certain executives of Clarify, who are also stockholders of Clarify, have entered into a Stockholders Agreement dated as of October 18, 1999 (the "Stockholders Agreement") whereby, and subject to the terms and conditions set forth therein, the executives have provided Nortel a proxy, representing approximately 4.7% of the total outstanding shares of Clarify on an undiluted basis, to vote for all matters in connection with the transactions contemplated by the Merger Agreement presented at the Clarify stockholders meeting.

Copies of the Merger Agreement, Stock Option Agreement, Stockholders Agreement and the joint press release of Nortel and Clarify announcing the Merger are attached hereto as Exhibit 2.1, 99.1, 99.2 and 99.3, respectively. The foregoing descriptions of the Merger Agreement, Stock Option Agreement and Stockholders Agreement are qualified in their entirety by reference to the full text of such exhibits. The Merger Agreement, Stock Option Agreement, Stockholders Agreement and the joint press release are hereby incorporated by reference.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL STATEMENTS AND EXHIBITS.

(c) Exhibits.

2.1	Agreement and Plan of Merger dated as of October 18, 1999 among Nortel Networks Corporation, Northern Crown Subsidiary, Inc. and Clarify Inc.
99.1	Stock Option Agreement dated as of October 18, 1999 between Nortel Networks Corporation and Clarify Inc.
99.2	Stockholders Agreement dated as of October 18, 1999

among Kirsten Berg-Painter, Dean Chabrier, Dennis Cunningham, Tanya Johnson, Jan Praisner, Seyna Rahmil, David Stamm, Jay Tyler, Jeanne Urich, Anthony Zingale and Nortel Networks Corporation.

99.3 Joint Press Release issued by Nortel Networks Corporation and Clarify Inc. on October 18, 1999.

SIGNATURES

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

CLARIFY INC.

Dated: October 22, 1999 By: /s/ Jan Praisner

Jan Praisner
Chief Financial Officer
(Principal Accounting and Financial Officer)

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
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EXECUTION VERSION
EXHIBIT 2.1

AGREEMENT AND PLAN OF MERGER

by and among

NORTEL NETWORKS CORPORATION,

NORTHERN CROWN SUBSIDIARY, INC.

and

CLARIFY INC.

Dated as of October 18, 1999

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Exhibit A Form of Affiliate Letter

AGREEMENT AND PLAN OF MERGER, dated as of October 18, 1999 (this "Agreement"), by and among NORTEL NETWORKS CORPORATION, a corporation organized under the laws of Canada ("Nortel"), NORTHERN CROWN SUBSIDIARY, INC., a corporation organized under the laws of Delaware and a wholly owned subsidiary of Nortel ("Sub"), and CLARIFY INC., a corporation organized under the laws of Delaware (the "Company").

WITNESSETH:

WHEREAS, the Boards of Directors of each of Nortel, Sub and the Company have determined that it is advisable and in the best interests of their respective companies and their stockholders to consummate the strategic business

combination transaction provided for herein in which, subject to the terms and conditions set forth herein, Sub will merge (the "Merger") with and into the Company, so that the Company is the surviving corporation in the Merger;

WHEREAS, the parties intend that for U.S. federal income tax purposes, the Merger qualify as a "reorganization" within the meaning of Section 368(a) of the Code;

WHEREAS, as a condition and an inducement to Nortel's willingness to enter into this Agreement, Nortel and the Company are simultaneously entering into a Stock Option Agreement (the "Option Agreement"), pursuant to which the Company is granting Nortel an option exercisable upon the occurrence of certain events;

WHEREAS, as a condition and as an inducement to Nortel's willingness to enter into this Agreement, certain substantial Company securityholders are entering into an agreement with Nortel (the "Stockholders' Agreement");

WHEREAS, as a condition and as an inducement to Nortel's willingness to enter into this Agreement, certain employees and directors of the Company who are also holders of stock or options of the Company are entering into agreements (the "Restrictive Covenant Agreements") with Nortel and the Company; and

WHEREAS, the parties desire to make certain representations, warranties and agreements in connection with the Merger and also to prescribe certain conditions to the Merger.

NOW, THEREFORE, in consideration of the mutual representations, warranties, covenants and agreements contained herein, and intending to be legally bound hereby, the parties agree as follows:

ARTICLE I

CERTAIN DEFINITIONS

1.01. Certain Definitions. As used in this Agreement, the following terms shall have the meanings set forth below:

"Acquisition Proposal" shall mean (a) a merger or consolidation, or any similar transaction, involving the Company (other than mergers, consolidations or similar transactions involving solely the Company and/or one or more wholly-owned Subsidiaries of the Company), (b) a purchase or other acquisition (including by way of merger, consolidation, share exchange, tender or exchange offer involving any Subsidiary of the Company or securities issued by any Subsidiary of the Company, as the case may be) of greater than 20% of the consolidated assets of the Company and its Subsidiaries (other than transactions involving the sale of inventory in the ordinary course of business, consistent with past practice), (c) a purchase or other acquisition (including by way of merger, consolidation, share exchange, tender or exchange offer or otherwise) of beneficial ownership of securities representing more than 20% of the voting power of the Company, (d) any substantially similar transaction, or (e) any inquiry or indication of interest with respect to any of the foregoing; in each case other than the transactions contemplated by this Agreement and the Option Agreement.

"1999 Company Stock Purchase Plan" shall have the meaning set forth in Section 3.07(d).

"Agreement" shall have the meaning set forth in the first paragraph

of this Agreement.

"Business Day" shall mean each day on which banking institutions in both of Toronto, Canada and New York, New York are not authorized or required to close.

"Canadian GAAP" shall mean Canadian generally accepted accounting principles.

"Canadian Stock Exchanges" shall mean the Toronto and Montreal stock exchanges.

"Capitalization Date" shall have the meaning set forth in Section 5.03(b)(i).

"Code" shall mean the U.S. Internal Revenue Code of 1986, as amended.

"Company" shall have the meaning set forth in the first paragraph of this Agreement.

"Company Affiliate" shall have the meaning set forth in Section 6.07(a).

"Company Board" shall mean the Board of Directors of the Company.

"Company Certificate" shall mean the Amended and Restated Certificate of Incorporation of the Company.

"Company Common Stock" shall have the meaning set forth in Section 3.01(b).

"Company Disclosure Schedule" shall have the meaning set forth in Section 5.01.

"Company Employee" shall have the meaning set forth in Section 6.13(a).

"Company Equity Interests" shall have the meaning set forth in Section 5.03(b).

"Company Filed SEC Documents" shall have the meaning set forth in Section 5.03(g).

"Company Financial Advisor" shall have the meaning set forth in Section 5.03(k).

"Company Intellectual Property Rights" shall have the meaning set forth in Section 5.03(p).

"Company Meeting" shall have the meaning set forth in Section 6.02.

"Company Plan" shall mean any Plan entered into or currently maintained, sponsored, or contributed to by the Company or any of its Subsidiaries or to which the Company or any such Subsidiary has any obligation to contribute or with respect to which the Company or any of its Subsidiaries may have any material liability.

"Company Preferred Stock" shall have the meaning set forth in Section 5.03(b).

"Company Proxy Statement" shall have the meaning set forth in Section 6.03(a).

"Company Rights Agreement" shall have the meaning set forth in Section 5.03(b).

"Company SEC Documents" shall have the meaning set forth in Section 5.03(g).

"Company Series A Preferred Stock" shall have the meaning set forth in Section 5.03(g).

"Company Stock Option Arrangements" shall have the meaning set forth in Section 3.07(a).

"Company Stock Option Plans" shall have the meaning set forth in Section 3.07(a).

"Company Stock Options" shall have the meaning set forth in Section 3.07(a).

"Company Stock Purchase Plans" shall have the meaning set forth in Section 3.07(d).

"Company Stockholder Protection Rights" shall have the meaning set forth in Section 5.03(b).

"Confidentiality Agreement" shall mean that certain confidentiality agreement, dated September 1, 1999, by and between the Company and Nortel.

"Copyrights" shall have the meaning set forth in the definition of Intellectual Property Rights.

"Costs" shall have the meaning set forth in Section 6.12(a).

"DGCL" shall mean the General Corporation Law of the State of Delaware.

"Disclosure Schedule" shall have the meaning set forth in Section 5.01.

"Effective Date" shall have the meaning set forth in Section 2.02.

"Effective Time" shall have the meaning set forth in Section 2.02.

"Environmental Laws" shall have the meaning set forth in Section 5.03(o).

"ERISA" shall mean the U.S. Employee Retirement Income Security Act of 1974, as amended, and the regulations promulgated thereunder and published interpretations of any Governmental Authority with respect thereto.

"Exchange Act" shall mean the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"Exchange Agent" shall have the meaning set forth in Section 3.05(a).

"Exchange Fund" shall have the meaning set forth in Section 3.05(a).

"Exchange Ratio" shall mean 1.3, subject to adjustment as set forth in Section 3.06.

"Exon-Florio" shall have the meaning set forth in Section 5.03(r).

"Governmental Authority" means any court, administrative agency or commission or other foreign or domestic federal, state, provincial or local governmental authority or instrumentality.

"HSR Act" shall have the meaning set forth in Section 5.03(r).

"Indemnified Party" shall have the meaning set forth in Section 6.12(a).

"Insurance Amount" shall have the meaning set forth in Section 6.12(b).

"Intellectual Property Rights" shall mean all proprietary, license and other rights in and to: (A) trademarks, service marks, brand names, trade dress, trade names, words, symbols, color schemes and other indications of origin ("Trademarks"); (B) patents, patent applications (together, "Patents"), inventors' certificates and invention disclosures; (C) trade secrets and other confidential or non-public business information, including ideas, formulas, compositions, discoveries and improvements, know-how, manufacturing and production processes and techniques, and research and development information; drawings, specifications, plans, proposals and technical data; analytical models, investment and lending strategies and records, financial and other products; financial, marketing and business data, pricing and cost information; business and marketing plans and customer and supplier lists and information; in each case whether patentable, copyrightable or not ("Trade Secrets"); (D) computer programs

and databases, in each case whether patentable, copyrightable or not (collectively, "Software"), and all documentation therefor; (E) writings and other works of authorship, including marketing materials, brochures, training materials, including all copyrights and moral rights related to each of the foregoing ("Copyrights"); (F) mask works; (G) rights to limit the use or disclosure of confidential information by any Person; (H) registrations of, and applications to register, any of the foregoing with any Governmental Authority and any renewals or extensions thereof; (I) the goodwill associated with each of the foregoing; and (J) any claims or causes of action arising out of or related to any infringement or misappropriation of any of the foregoing; in each case in any jurisdiction.

"Knowledge" with respect to a party shall mean to the knowledge of its senior executive officers after reasonable inquiry.

"Liens" shall mean any charge, mortgage, pledge, security interest, restriction, claim, lien, or encumbrance.

"Material Adverse Effect" shall mean with respect to any party, any change, circumstance or effect that (i) is or is reasonably likely to be materially adverse to the business, condition (financial or otherwise) or

results of operations of such party and its Subsidiaries taken as a whole, other than any change, circumstance or effect that results from or arises out of (a) changes in the economy in general or (b) changes or circumstances affecting the industries in which such party operates, which change, circumstance or effect (in the case of clause (b)) does not affect the Company or Nortel, as the case may be, disproportionately relative to other entities operating in such industry; provided, that any change, circumstance or effect that arises directly out of or results directly from the announcement of the transactions contemplated by this Agreement shall not by itself be deemed to constitute a Material Adverse Effect; or (ii) would materially impair the ability of Nortel or the Company, as the case may be, to perform its obligations under this Agreement.

"Material Suppliers" shall have the meaning set forth in Section 5.03(t)(ii).

"Material Systems" shall mean, with respect to any person, all internal computer systems, communications systems, embedded manufacturing systems and facilities infrastructure systems that are material to the business, finances and operations of such person.

"Merger" shall have the meaning set forth in the recitals to this Agreement.

"NASD" shall mean the National Association of Securities Dealers, Inc. or, if the context so requires, the Nasdaq Stock Market, Inc.

"New Certificates" shall have the meaning set forth in Section 3.05(a).

"New Purchase Date" shall have the meaning set forth in Section 3.07(d).

"Nortel" shall have the meaning set forth in the first paragraph of this Agreement.

"Nortel Board" shall mean the Board of Directors of Nortel.

"Nortel Certificate" shall mean the Certificate and Articles of Amalgamation of Nortel dated January 4, 1982, as amended from time to time by the Certificates and Articles of Amendment of Nortel.

"Nortel Common Shares" shall have the meaning set forth in Section 3.01(a).

"Nortel Disclosure Schedule" shall have the meaning set forth in Section 5.01.

"Nortel SEC Documents" shall have the meaning set forth in Section 5.04(f).

"NYSE" shall mean the New York Stock Exchange, Inc.

"Old Certificates" shall have the meaning set forth in Section 3.05(a).

"Option Agreement" shall have the meaning set forth in the recitals hereof.

"Other Company Option Agreements" shall have the meaning set forth in Section 3.07(a).

"Patents" shall have the meaning set forth in the definition of Intellectual Property Rights.

"Person" or "person" shall mean any individual, bank, corporation, limited liability company, partnership, association, joint-stock company, business trust or unincorporated organization.

"Plan" shall mean any "employee benefit plan", within the meaning of Section 3(3) of ERISA, whether or not subject to ERISA, and any employment, consulting, termination, severance, retention, change in control, deferred or incentive compensation, bonus, stock option or other equity based, vacation or other fringe benefit plan, program, policy, arrangement, agreement or commitment.

"Previously Disclosed" by a party shall mean set forth or disclosed in (x) the Company Filed SEC Documents or the Nortel SEC Documents filed prior to the date of this Agreement, as the case may be, or (y) the related section of its Disclosure Schedule.

"Registration Statement" shall have the meaning set forth in Section 6.03(a).

"Regulatory Law" shall mean the Sherman Act, as amended, the Clayton Act, as amended, the HSR Act, the Federal Trade Commission Act, as amended, and all other federal, state and foreign, if any, statutes, rules, regulations, orders, decrees, administrative and judicial doctrines and other laws that are designed or intended to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade or lessening of competition through merger or acquisition.

"Restrictive Covenant Agreements" shall have the meaning set forth in the recitals to this Agreement.

"Rights" shall mean, with respect to any person, securities or obligations convertible into or exercisable or exchangeable for, or giving any person any right to subscribe for or acquire, or any options, calls or commitments relating to, or any stock appreciation right or other instrument the value of which is determined in whole or in part by reference to the market price or value of, shares of capital stock of such person.

"Scheduled Expenditures" shall have the meaning set forth in Section 4.01(n).

"SEC" shall mean the United States Securities and Exchange Commission.

"Securities Act" shall mean the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"Software" shall have the meaning set forth in the definition of Intellectual Property Rights.

"Stockholders' Agreement" shall have the meaning set forth in the recitals to this Agreement.

"Sub" shall have the meaning set forth in the first paragraph of this Agreement.

"Sub Common Stock" shall have the meaning set forth in Section 3.01(a).

"Subsidiary" and "Significant Subsidiary" shall have the meanings ascribed to them in Rule 1-02 of Regulation S-X of the SEC.

"Superior Proposal" shall have the meaning set forth in Section 6.06(a).

"Surviving Corporation" shall mean the Company, as the surviving corporation in the Merger.

"Takeover Laws" shall have the meaning set forth in Section 5.03(m).

"Tax Returns" shall have the meaning set forth in Section 5.03(q).

"Taxes" shall mean all taxes, charges, fees, levies or other assessments, however denominated, including, without limitation, all net income, gross income, gross receipts, sales, use, ad valorem, goods and services, capital, transfer, franchise, profits, license, withholding, payroll, employment, employer health, excise, estimated, severance, stamp, occupation, property or other taxes, custom duties, fees, assessments or charges of any kind whatsoever, together with any interest and any penalties, additions to tax or additional amounts imposed by any taxing authority whether arising before, on or after the Effective Date.

"Termination Fee" shall have the meaning set forth in Section 8.02(b).

"Trade Secrets" shall have the meaning set forth in the definition of Intellectual Property Rights.

"Trademarks" shall have the meaning set forth in the definition of Intellectual Property Rights.

"Treasury Shares" shall mean shares of the Company Common Stock held by the Company or any of its Subsidiaries.

"U.S. GAAP" shall mean United States generally accepted accounting principles.

"Year 2000 Compliant" shall have the meaning set forth in Section 5.03(t).

"$" shall mean United States Dollar.

ARTICLE II

THE MERGER; EFFECTS OF THE MERGER

2.01. The Merger. (a) Surviving Corporation. Upon the terms and subject to the conditions set forth in this Agreement, and in accordance with the DGCL, at the Effective Time Sub will merge with and into the Company pursuant to the Merger. Following the Effective Time of the Merger, the separate

corporate existence of Sub shall cease and the Company shall survive and continue to exist as a Delaware corporation.

(b) Effectiveness and Effects of the Merger. Subject to the satisfaction or waiver of the conditions set forth in Article VII in accordance with this Agreement, the Merger shall become effective upon the occurrence of the filing in the office of the Secretary of State of the State of Delaware of a certificate of merger in accordance with Section 251 of the DGCL, or such later date and time as may be set forth in such certificate. The Merger shall have the effects prescribed in the DGCL. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time all the property, rights, privileges, powers and franchises of the Company and Sub shall be vested in the Surviving Corporation, and all debt, liabilities and duties of the Company and Sub shall become the debt, liabilities and duties of the Surviving Corporation.

(c) Certificate of Incorporation and By-Laws. The certificate of incorporation and by-laws of Sub, as in effect immediately prior to the Effective Time, but with Article 1 of the certificate of incorporation amended to read: "The name of the Corporation is Clarify Inc.," shall be those of the Surviving Corporation until thereafter changed or amended as provided therein or by applicable law.

(d) Name. The name of the Surviving Corporation shall remain "Clarify Inc."

(e) Officers and Directors of Surviving Corporation. The officers of the Company as of the Effective Time shall be the officers of the Surviving Corporation, until the earlier of their resignation or removal or otherwise ceasing to be an officer or until their respective successors are duly elected and qualified, as the case may be. The directors of Sub as of the Effective Time shall be the directors of the Surviving Corporation until the earlier of their resignation or removal or otherwise ceasing to be a director or until their respective successors are duly elected and qualified, as the case may be.

2.02. Effective Date and Effective Time. Subject to the satisfaction or waiver (subject to applicable law) of the conditions set forth in Article VII in accordance with this Agreement, the parties shall cause the effective date of the Merger (the "Effective Date") to occur on (i) the third Business Day to occur after the last of the conditions set forth in Section 7.01 shall have been satisfied or waived in accordance with the terms of this Agreement or (ii) such other date to which the parties may agree in writing. The time on the Effective Date when the Merger shall become effective is referred to as the "Effective Time."

2.03. Tax Consequences. It is intended that the Merger shall qualify as a reorganization under Section 368(a) of the Code. The parties hereto hereby adopt this Agreement as a "plan of reorganization" within the meaning of Sections 1.368-2(g) and 1.368-3(a) of the U.S. Treasury Regulations.

ARTICLE III

CONVERSION OF SHARES; EXCHANGE PROCEDURES

3.01. Conversion of Shares. Subject to the provisions of this Agreement, at the Effective Time, automatically by virtue of the Merger and without any action on the part of any party or stockholder:

(a) Conversion of Sub Common Stock. Each share of common stock of

Sub, par value $0.0001 per share (the "Sub Common Stock"), issued and outstanding immediately prior to the Effective Time, shall be converted into one newly issued, fully-paid and non-assessable share of preferred stock, $0.0001 par value, of the Surviving Corporation, pursuant to a Certificate of Designations proposed by Nortel and approved by the Company, such approval not to be unreasonably withheld or delayed.

(b) Conversion of Company Common Stock. Subject to Section 3.04, each share of common stock, par value $0.0001 per share, of the Company (the "Company Common Stock") issued and outstanding immediately prior to the Effective Time (other than shares of Company Common Stock to be canceled pursuant to Section 3.01(c)) shall become and be converted into the right to receive a number of common shares, without par value, of Nortel ("Nortel Common Shares"), equal to the Exchange Ratio. All of the shares of Company Common Stock converted into the right to receive Nortel Common Shares (or cash pursuant to Section 3.04) pursuant to this Article III shall no longer be outstanding and shall automatically be canceled and shall cease to exist as of the Effective Time.

(c) Treasury Shares. Each share of Company Common Stock held by the Company or any wholly owned Subsidiary of the Company as Treasury Shares immediately prior to the Effective Time or owned by Nortel or any Subsidiary thereof shall no longer be outstanding and shall automatically be canceled and retired at the Effective Time and no consideration shall be issued in exchange therefor.

3.02. Issuance of Shares of the Surviving Corporation. At the Effective Time, in consideration of the issuance by Nortel of Nortel Common Shares to the holders of Company Common Stock in accordance with Section 3.01(b), the Surviving Corporation shall issue to Nortel a number of shares of newly issued, fully-paid and non-assessable common stock,

$0.0001 par value, of the Surviving Corporation, which number shall be equal to the number of shares of Company Common Stock outstanding as of immediately prior to the Effective Time.

3.03. Rights as Stockholders; Stock Transfers. At the Effective Time, holders of Company Common Stock shall cease to be, and shall have no rights as, stockholders of the Company, other than the right to receive any dividend or other distribution with respect to such Company Common Stock with a record date occurring prior to the Effective Time and the consideration provided under this Article III. After the Effective Time, there shall be no transfers on the stock transfer books of the Company or the Surviving Corporation of shares of Company Common Stock.

3.04. Fractional Shares. Notwithstanding any other provision hereof, no fractional Nortel Common Shares and no certificates or scrip therefor, or other evidence of ownership thereof, will be issued in the Merger; instead, Nortel shall pay to each holder of Company Common Stock who would otherwise be entitled to a fractional share of Nortel Common Shares (after taking into account all Old Certificates delivered by such holder) an amount (in U.S. dollars) in cash (without interest) determined by multiplying such fraction by the average of the last sale prices of Nortel Common Shares, as reported by the NYSE Composite Transactions Reporting System (as reported in The Wall Street Journal or, if not reported therein, in another authoritative source), for the five NYSE trading days immediately preceding the Effective Date. As promptly as practicable after the determination of the amount of cash, if any, to be paid to holders of fractional interests, Nortel shall so notify the Exchange Agent, and

Nortel shall cause the Surviving Corporation to deposit such amount with the Exchange Agent and shall cause the Exchange Agent to forward payments to such holders of fractional interests subject to and in accordance with the terms hereof.

3.05. Exchange Procedures. (a) At or prior to the Effective Time, Nortel shall deposit, or shall cause to be deposited, with a bank or trust company having (or whose parent has) net capital of not less than $100,000,000 (the "Exchange Agent"), for the benefit of the holders of certificates formerly representing shares of Company Common Stock ("Old Certificates"), for exchange in accordance with this Article III, certificates representing the Nortel Common Shares ("New Certificates") and an estimated amount of cash pursuant to Section 3.04 (such cash and New Certificates (without any interest on any such cash), being hereinafter referred to as the "Exchange Fund") to be paid pursuant to this Article III in exchange for outstanding shares of Company Common Stock.

(b) As promptly as practicable after the Effective Date, Nortel shall send or cause the Exchange Agent to send or cause to be sent to each former holder of record of shares (other than Treasury Shares) of Company Common Stock immediately prior to the Effective Time transmittal materials for use in exchanging such stockholder's Old Certificates for the consideration set forth in this Article III. Nortel shall cause the New Certificates representing Nortel Common Shares into which shares of a stockholder's Company Common Stock are converted at the Effective Time and/or any check in respect of any fractional share interests or dividends or distributions which such person shall be entitled to receive pursuant to this Article III to be delivered to such stockholder upon delivery to the Exchange Agent of Old Certificates representing such shares of Company Common Stock (or, pursuant to Section 3.05(f), a surety bond or other indemnity reasonably satisfactory to Nortel and the Exchange Agent, if any of such

certificates are lost, stolen or destroyed) owned by such stockholder. No interest will be paid on any such cash to be paid in lieu of fractional share interests or in respect of dividends or distributions which any such person shall be entitled to receive pursuant to this Article III upon such delivery.

(c) Notwithstanding the foregoing, neither the Exchange Agent nor any party hereto shall be liable to any former holder of Company Common Stock for any amount properly delivered to a public official pursuant to applicable abandoned property, escheat or similar laws.

(d) No dividends or other distributions with respect to Nortel Common Shares with a record date occurring after the Effective Time shall be paid to the holder of any unsurrendered Old Certificate representing shares of Company Common Stock converted in the Merger into the right to receive Nortel Common Shares and cash in lieu of fractional Nortel Common Shares pursuant to Section 3.04, until the holder thereof shall be entitled to receive New Certificates and such amount of cash in exchange therefor in accordance with this Article III. After becoming so entitled in accordance with this Article III, the record holder thereof also shall be entitled to receive any such dividends or other distributions, without any interest thereon, which theretofore had become payable with respect to Nortel Common Shares such holder had the right to receive upon surrender of the Old Certificate, and payment thereof shall be made promptly following the later of (i) the date on which such holder shall become entitled to receive New Certificates and (ii) the payment date with respect to such dividend or other distribution.

(e) Any portion of the Exchange Fund that remains unclaimed by the

stockholders of the Company for one year after the Effective Time shall, upon demand by Nortel, be paid or delivered to Nortel. Any stockholders of the Company who have not theretofore complied with this Article III shall thereafter look only to Nortel for payment of the Nortel Common Shares, cash in lieu of any fractional shares and unpaid dividends and distributions on the Nortel Common Shares deliverable in respect of each share of Company Common Stock such stockholder holds as determined pursuant to this Agreement, in each case, without any interest thereon.

(f) If any Old Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such Old Certificate to be lost, stolen or destroyed and the posting by such person of a bond in such reasonable amount as Nortel may direct as indemnity against any claim that may be made against it or the Surviving Corporation with respect to such Old Certificate, Nortel shall, in exchange for such lost, stolen or destroyed Old Certificate, deliver or cause the Exchange Agent to deliver a New Certificate in respect thereof pursuant to this Article III.

3.06. Anti-Dilution Provisions. In the event Nortel changes (or establishes a record date for changing) the number of Nortel Common Shares issued and outstanding prior to the Effective Time as a result of a stock split, stock dividend, recapitalization, subdivision, reclassification, combination, exchange of shares or similar transaction with respect to the outstanding Nortel Common Shares then (a) if the record and payment dates therefor shall be prior to the Effective Time, the Exchange Ratio shall be proportionately adjusted to reflect such stock split, stock dividend, recapitalization, subdivision, reclassification, combination, exchange of shares or similar transaction; and (b) if the record date therefor shall be prior to the Effective

Time but the payment date therefor shall be subsequent to the Effective Time, Nortel shall take such action as shall be required so that on such payment date any former holder of Old Certificates who shall have received or become entitled to receive New Certificates pursuant to this Article III shall be entitled to receive such additional Nortel Common Shares as such holder would have received as a result of such event if the record date therefor had been immediately after the Effective Time.

3.07. Stock Options and Other Stock Plans. (a) Effective at the Effective Time, each option to purchase shares of Company Common Stock (collectively, the "Company Stock Options") granted to employees or directors of, or consultants or advisors to, the Company or any Subsidiary thereof pursuant to the terms of the Clarify Inc. 1999 Non-Executive Stock Option/Stock Issuance Plan, the Clarify Inc. 1995 Stock Option/Stock Issuance Plan, the Clarify Inc. Non-Employee Directors' Stock Option Plan, the Clarify Inc. 1991 Stock Option/Stock Issuance Plan or the Objix Systems Development, Inc. Stock Plan (collectively, the "Company Stock Option Plans") or granted to employees pursuant to a separate stock option agreement listed on Schedule 3.07 hereto (collectively, the "Other Company Option Agreements" and, together with the Company Stock Option Plans, the "Company Stock Option Arrangements") that is outstanding immediately prior to the Effective Time shall be assumed by Nortel and deemed to constitute an option to acquire, on the same terms and conditions (including adjustments for any stock dividend, subdivision, reclassification, recapitalization, split, combination, exchange of shares or similar transaction following such assumption) as were applicable under such Company Stock Option immediately prior to the Effective Time, the number of Nortel Common Shares (rounded down to the greatest number of whole Nortel Common Shares) that is equal to the product of (i) the number of shares of Company Common Stock covered by such Company Stock Option immediately prior to the Effective Time multiplied

by (ii) the Exchange Ratio, at an option exercise price per share of Nortel Common Shares equal to the quotient of (iii) the option exercise price per share of Company Common Stock covered by such Company Stock Option immediately prior to the Effective Time divided by (iv) the Exchange Ratio. The date of grant of each such Company Stock Option shall be the date on which such Company Stock Option was originally granted. The portion, if any, of the Company Stock Options granted pursuant to the Other Company Option Agreements, Article IV (Automatic Option Grant Program) of the 1995 Stock Option/Stock Issuance Plan prior to its amendment on June 10, 1999 or the Non-Employee Directors' Stock Option Plan which, pursuant to the terms of such Other Company Option Agreements, Article IV of such 1995 Stock Option/Stock Issuance Plan or Non-Employee Directors' Stock Option Plan, are to become vested in connection with the Merger shall become vested at the Effective Time in accordance with their terms. Within three Business Days following the Effective Date, Nortel shall cause to be delivered to each holder of a Company Stock Option that has been assumed by Nortel pursuant to this Section 3.07 a notice stating that (x) such Company Stock Option has been converted into an option to purchase Nortel Common Shares, (y) such Company Stock Option has been assumed by Nortel and shall continue in effect subject to all of the terms and conditions applicable thereto immediately prior to the Effective Time and (z) setting forth the number of Nortel Common Shares covered by such Company Stock Option and the per share option exercise price for such Nortel Common Shares. From and after the Effective Time, Nortel and the Surviving Corporation shall comply with the terms of each Company Stock Option Arrangement pursuant to which the Company Stock Options were granted, including such terms requiring acceleration of the vesting of Company Stock Options in the event of certain

terminations of the service of the holder thereof occurring within the eighteen month period immediately following the Effective Date; provided, that the board of directors of Nortel or an authorized committee thereof shall succeed to the authorities and responsibilities of the Company Board or any committee thereof under the Company Stock Option Arrangements. The adjustments provided herein with respect to any Company Stock Options that are "incentive stock options" (as defined in Section 422 of the Code) shall be effected in a manner consistent with Section 424(a) of the Code.

(b) Prior to the Effective Date, the Company shall take all necessary or appropriate action (including amending any of the Company Stock Option Arrangements or making adjustments as permitted thereby) to (i) effectuate the assumption and conversion of the Company Stock Options by Nortel and the assignment to Nortel of the authorities and responsibilities of the Company Board or any committee thereof under the Company Stock Option Arrangements, (ii) preclude the grant of any additional Company Stock Options under any of the Company Stock Option Arrangements or otherwise (except as provided in Section 4.01(d)(iii)) and (iii) make such other amendments as Nortel shall determine are necessary to comply with Canadian securities laws that will become applicable to such Company Stock Option Arrangements at the Effective Time or otherwise by reason of the Merger.

(c) Nortel shall cause to be taken all corporate action necessary to reserve for issuance a sufficient number of Nortel Common Shares for delivery upon exercise of Company Stock Options in accordance with this Section 3.07. Nortel shall use its reasonable best efforts to cause the Nortel Common Shares subject to Company Stock Options to be registered under the Securities Act pursuant to a registration statement on Form S-8 (or any successor or other appropriate forms) within five Business Days following the Effective Date, and shall use its reasonable best efforts to cause the effectiveness of such registration statement (and current status of the prospectus or prospectuses

contained therein) to be maintained for so long as Company Stock Options remain outstanding.

(d) The Company shall take such action as is necessary to cause (i) a "new purchase date," within the meaning of the Clarify Inc. 1999 Employee Stock Purchase Plan (the "1999 Company Stock Purchase Plan"), to be established that will cause all offering periods under the 1999 Company Stock Purchase Plan in effect immediately prior to the Effective Date to terminate as of the Business Day immediately prior to the Effective Date (the "New Purchase Date") and (ii) cause all offering periods in effect immediately prior to the Effective Date under the Clarify Inc. Employee Stock Purchase Plan (together with the 1999 Company Stock Purchase Plan, the "Company Stock Purchase Plans") to terminate as of the New Purchase Date; provided that such changes in the offering periods shall be conditioned upon the consummation of the Merger. On the New Purchase Date, the Company shall apply the funds credited as of such date under the Company Stock Purchase Plans within each participant's payroll withholding account to the purchase of whole shares of Company Common Stock in accordance with the terms of the Company Stock Purchase Plans, with any remaining cash to be returned to the respective employees. Immediately prior to and effective as of the Effective Time and subject to the consummation of the Merger, the Company shall terminate the Company Stock Purchase Plans.

ARTICLE IV

ACTIONS PENDING MERGER

4.01. Forbearances of the Company. From the date hereof until the Effective Time, except as expressly contemplated by this Agreement, as required by a Governmental Authority of competent jurisdiction or as set forth in Section 4.01 of the Company Disclosure Schedule, without the prior written consent of Nortel, the Company will not, and will cause each of its Subsidiaries not to:

(a) Ordinary Course. Conduct its business and the business of its Subsidiaries other than in the ordinary and usual course in all material respects and in material compliance with applicable laws and regulations or, to the extent consistent therewith, fail to use reasonable best efforts to preserve intact their business organizations and assets and maintain their rights, franchises and existing relations with customers, suppliers, employees and business associates, or take any action that would adversely affect its ability to perform any of its material obligations under this Agreement in any material respect; provided, however, that no action by the Company or its Subsidiaries with respect to matters specifically addressed by any other provision of this Section 4.01 shall be deemed a breach of this Section 4.01(a) unless such action would constitute a breach of one or more of such other provisions.

(b) Capital Stock. (i) Issue, sell, pledge, dispose of or encumber, or authorize or propose the issuance, sale, pledge, disposition or encumbrance of, any shares of its capital stock or any Rights, (ii) enter into any agreement with respect to the foregoing or (iii) permit any additional shares of capital stock to become subject to new grants of employee or director stock options, other Rights or similar stock-based employee rights, other than (w) the issuance of Company Common Stock upon the exercise of stock options outstanding as of the date hereof issued in the ordinary course of business in accordance with the terms of the Company Stock Option Arrangements as in effect on the date of this Agreement, (x) the issuance of Company Common Stock upon the exercise of stock options granted in accordance with

Section 4.01(d)(iii), (y) issuances by a wholly owned Subsidiary of the Company of capital stock to such Subsidiary's parent and (z) issuances to comply with the Company's obligations under the Company Stock Purchase Plans.

(c) Dividends, Etc. (i) Make, declare, pay or set aside for payment any dividend (other than dividends from the Company's Subsidiaries to the Company or another Subsidiary of the Company) on or in respect of, or declare or make any distribution on any shares of its capital stock or (ii) except for any such transaction by a wholly owned Subsidiary of the Company which remains a wholly owned Subsidiary after consummation of such transaction, directly or indirectly adjust, split, combine, redeem, reclassify, purchase, repurchase or otherwise acquire, any shares of the capital stock of the Company or any of its Subsidiaries.

(d) Compensation; Employment Agreements; Etc. Enter into or amend any employment, consulting, severance, retention, change in control or similar agreements or arrangements with any of its or its Subsidiaries' directors, officers, employees or

consultants or former directors, officers, employees or consultants, or grant any salary, wage or other compensation increase, make any award or grant under any Plan or increase or modify any employee benefit (including any incentive or bonus payments or perquisite), except for (i) increases in annual salary or hourly wage rates granted to current employees (other than officers) in the ordinary course of business, consistent with past practice, (ii) changes required to be implemented in accordance with the current terms of any Company Plan set forth in Section 4.01(d) of the Company Disclosure Schedule, (iii) grants of stock options to purchase up to an aggregate of 150,000 shares of Company Common Stock in accordance with the terms of the Clarify Inc. 1999 Non-Executive Stock Option/Stock Issuance Plan and the Clarify Inc. 1995 Stock Option/Stock Issuance Plan, in each case as in effect on the date hereof, to new employees hired after the date hereof and/or to current employees (other than current officers or other executives) in connection with the promotion or retention of any such current employee, in any such case, in the ordinary course of business, consistent with past practice, and (iv) changes required by law.

(e) Benefit Plans. Enter into, adopt, implement or amend in any material respect (except to the extent required to comply with applicable law) any Plan.

(f) Acquisitions and Dispositions. Acquire all or any portion of the assets, business or properties of any other entity or sell, transfer, mortgage, encumber or otherwise dispose of or discontinue any portion of its assets, business or properties.

(g) Amendments. Amend the Company Certificate or the Company's by-laws.

(h) Accounting Methods. Implement or adopt any change in its accounting principles, practices or methods, other than as may be required by U.S. GAAP or SEC regulation.

(i) Contracts. Except in the ordinary course of business, enter into or terminate any contract, agreement or lease (including any licensing agreement) involving property, services or payments with a

value in excess of $2,000,000, or amend or modify in a material respect any of its existing contracts, agreements or leases (including any licensing agreements) originally involving property, services or payments with a value in excess of $2,000,000.

(j) Claims. Except in the ordinary course of business, settle any claim, action or proceeding involving money damages in excess of $200,000 in the aggregate or involving any restrictions or limitations on the Company or the Company's business.

(k) Adverse Actions. (i) Take any action while knowing that such action would, or is reasonably likely to, prevent or impede the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code; or (ii) knowingly take any action that is intended or is reasonably likely to result in (A) any of its representations and warranties set forth in this Agreement being or becoming untrue at any time at or prior to the Effective Time, (B) except as otherwise permitted by Section 6.06, any of the conditions to the Merger set forth in Article VII not being satisfied or

satisfaction of such condition being materially delayed or (C) a violation of any provision of this Agreement except, in each case, as may be required by applicable law.

(l) Incurrence of Indebtedness. Other than (i) short-term indebtedness incurred in the ordinary course of business consistent with past practice but in no event to exceed an aggregate of $2,000,000 of short-term indebtedness and (ii) indebtedness of the Company or any of its Subsidiaries to the Company or any of its Subsidiaries, incur any indebtedness for borrowed money, assume, guarantee, endorse or otherwise as an accommodation become responsible for the obligations of any other individual, corporation or other entity, or make any loan or advance.

(m) Capital Expenditures in General. Make any capital expenditures in excess of $2,000,000 in the aggregate in any quarter of the year, other than Scheduled Expenditures.

(n) Scheduled Expenditures. Make any capital expenditures in connection with the construction of Building "A" on the Clarify Corporate Center campus or the international PeopleSoft implementation ("Scheduled Expenditures") in excess of the amounts set forth in Section 4.01(n) of the Company Disclosure Schedule, which represents the Company's best estimate of the amount and nature of all such expenditures to be incurred through June 30, 2000.

(o) Tax Elections. Make any new or different material Tax election, or revoke any material Tax election.

(p) Confidentiality Agreements. Waive any confidentiality or "standstill" provisions entered into with any third party in connection with its consideration of an Acquisition Proposal.

(q) Agreements. Agree or commit to do anything prohibited by the above paragraphs (a) through (p).

4.02. Forbearances of Nortel. From the date hereof until the Effective Time, except as expressly contemplated by this Agreement or as set forth in Section 4.02 of the Nortel Disclosure Schedule, without the prior

written consent of the Company, Nortel will not, and will cause each of its Subsidiaries not to:

(a) Dividends, Etc. (i) Make, declare, pay or set aside for payment any extraordinary cash dividend on or in respect of the Nortel Common Shares.

(b) Adverse Actions. (i) Take any action while knowing that such action would, or is reasonably likely to, prevent or impede the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code; or (ii) knowingly take any action that is intended or is reasonably likely to result in (A) any of its representations and warranties set forth in this Agreement being or becoming untrue at any time at or prior to the Effective Time, (B) subject to Section 6.11(d), any of the conditions to the Merger set forth in Article VII not being satisfied or satisfaction of such

condition being materially delayed or (C) a violation of any provision of this Agreement except, in each case, as may be required by applicable law.

(c) Agreements. Agree or commit to do anything prohibited by the above paragraphs (a) and (b).

ARTICLE V

REPRESENTATIONS AND WARRANTIES

5.01. Disclosure Schedules. At or prior to the execution hereof, the Company has delivered to Nortel and Nortel has delivered to the Company a schedule (each a "Disclosure Schedule" and, respectively, the "Company Disclosure Schedule" and the "Nortel Disclosure Schedule") each section of which sets forth items (x) the disclosure of which is necessary or appropriate in response to an express disclosure requirement contained in a correspondingly numbered provision hereof or (y) that qualify, to the extent specified therein, a correspondingly numbered representation and warranty contained in Section 5.03 or 5.04 or covenant contained in Article IV; provided, that the mere inclusion of an item in a Disclosure Schedule shall not be deemed an admission by a party that such item represents a material exception to any representation, warranty or covenant or is for any purpose relating to this Agreement a material fact, event or circumstance or that such item is reasonably likely to result in a Material Adverse Effect; and provided, further, that any item included in a party's Disclosure Schedule pursuant to clause (y) above shall be deemed to qualify each representation and warranty in Section 5.03 or 5.04, as the case may be, and each covenant in Article IV if and only to the extent that it should be reasonably obvious to the other party from the content of such item and the context in which it appears in the Disclosure Schedule that such qualification is appropriate.

5.02. Standard. Except as otherwise set forth in this Section 5.02, no representation or warranty of the Company contained in Section 5.03 (other than in Section 5.03(u)) or of Nortel contained in Section 5.04 (other than in Section 5.04(j)) shall be deemed untrue or incorrect, and no party hereto shall be deemed to have breached any such representation or warranty, unless there exist facts, circumstances or events that are inconsistent with such representation or warranty and that, individually or taken together with all other facts, events or circumstances inconsistent with any representation or warranty contained in Section 5.03 or Section 5.04, as the case may be, has had

or is reasonably likely to have a Material Adverse Effect. Notwithstanding the foregoing, (x) any representation or warranty of the Company contained in Sections 5.03(b), 5.03(e), 5.03(f)(ii), 5.03(m), 5.03(n), 5.03(s) and, solely as of the date of this Agreement, Section 5.03(h) and (y) any representation or warranty of Nortel contained in Sections 5.04(b), 5.04(d) and 5.04(e)(ii) shall be deemed untrue and incorrect, and the Company or Nortel, as the case may be, shall be deemed to have breached such representation or warranty, if such representation or warranty is not true and correct in all material respects. In determining whether a representation or warranty in Section 5.03 or Section 5.04 (other than the representations and warranties in Section 5.03(u) and Section 5.04(j)) is true and correct under the foregoing standards, such representation or warranty shall be read without regard to any reference to materiality or Material Adverse Effect set forth therein.

5.03. Representations and Warranties of the Company. Subject to Sections 5.01 and 5.02 and except as Previously Disclosed, the Company hereby represents and warrants to each of Nortel and Sub as follows:

(a) Organization, Standing and Authority. The Company is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization. It is duly qualified to do business and is in good standing in the states of the United States and foreign jurisdictions where its ownership or leasing of property or assets or the conduct of its business requires it to be so qualified and it has in effect all federal, state, local and foreign governmental authorizations necessary for it to own or lease its properties and assets and to carry on its business as it is now conducted. The Company has made available to Nortel a complete and correct copy of its certificate of incorporation and by-laws, each as amended and in full force and effect as of the date of this Agreement, and the Company is not in violation of any provision thereof.

(b) Shares.

(i) The authorized capital stock of the Company consists of (A) 55,000,000 shares of Company Common Stock of which 23,654,944 shares were outstanding as of October 14, 1999 (the "Capitalization Date") and (B) 5,000,000 shares of preferred stock, par value $0.0001 per share ("Company Preferred Stock"), of which no shares were issued or outstanding as of the Capitalization Date and 50,000 shares of which have been designated Series A Junior Participating Preferred Stock ("Company Series A Preferred Stock") and reserved for issuance upon exercise of the rights (the "Company Stockholder Protection Rights") distributed to the holders of Company Common Stock pursuant to a Rights Agreement dated as of June 13, 1997, between the Company and Harris Trust Company of California, as Rights Agent, as amended (the "Company Rights Agreement"). Since the Capitalization Date, there have been no issuances of shares of the capital stock of the Company or any other securities of the Company other than issuances of shares pursuant to Company Stock Options outstanding on the Capitalization Date as set forth in clause (iii) below.

(ii) All issued and outstanding shares of Company Common Stock have been duly authorized and validly issued, and are fully paid and nonassessable, and no class of capital stock of the Company is entitled to preemptive rights.

(iii) There were outstanding at the Capitalization Date no Rights to acquire capital stock from the Company other than (A) the Company Stockholder Protection Rights, (B) Company Stock Options and (C) rights under the Company Stock Purchase Plans, the Rights referred to in clauses (B) and (C) representing in the aggregate the right to purchase 6,659,730 shares of Company Common Stock. Section 5.03(b)(iii) of the Company Disclosure Schedule sets forth for all Company Stock Options outstanding at the Capitalization Date a true and complete list of the following: their holders, their date of grant, the number of shares of Company Common Stock for which they are exercisable, their exercise price as currently in effect, their date of vesting and the conditions, if any, under

which such vesting may accelerate. Other than in connection with the Option Agreement and other than the associated Company Stockholder Protection Rights issued with the shares of Company Common Stock issued as described in clause (i) above, no Rights to acquire capital stock from the Company have been issued or granted since the Capitalization Date.

(c) Subsidiaries.

(i) Section 5.03(c)(i) of the Company Disclosure Schedule sets forth a list as of the date hereof of all of the Company's Subsidiaries, together with their jurisdiction of organization. Unless otherwise described therein, the Company owns, directly or indirectly, beneficially and of record 100% of the issued and outstanding voting securities of each such Subsidiary (other than directors' qualifying shares, if any). No equity securities of any of the Company's Subsidiaries are or may become required to be issued (other than to the Company or its wholly owned Subsidiaries) by reason of any Rights and there are no contracts, commitments, understandings or arrangements by which any of such Subsidiaries is bound to sell or otherwise transfer any shares of capital stock of any such Subsidiaries (other than to the Company or its wholly owned Subsidiaries). In addition, Section 5.03(c)(i) of the Company Disclosure Schedule lists as of the date of this Agreement each corporation, partnership, limited liability company or similar entity with respect to which, as of the date of this Agreement, the Company or any Subsidiary of the Company owns more than 5% but less than a majority of the voting equity or similar voting interest or any interest convertible into, or exchangeable or exercisable for, more than 5% but less than a majority of the voting equity or similar voting interest and which interest is carried on the Company's most recent financial statements (or if not held as of the date thereof, would be carried on the Company's financial statements if prepared as of the date hereof) at a value in excess of $500,000 (collectively, the "Company Equity Interests"). All of the shares of capital stock of each of the Significant Subsidiaries of the Company and all the Company Equity Interests held by the Company and each Subsidiary of the Company are fully paid and nonassessable and are owned by the Company or such Subsidiary free and clear of any Liens. There are no material outstanding contractual obligations of the Company or any of its Subsidiaries to provide funds to, or make any investment (in the form of a

loan, capital contribution or otherwise) in any entity in which the Company or any Subsidiary of the Company owns a Company Equity Interest.

(ii) Each of the Company's Subsidiaries has been duly organized and is validly existing in good standing under the laws of the jurisdiction of its organization. Each of such Subsidiaries is duly qualified to do business and in good standing in the jurisdictions where its ownership or leasing of property or the conduct of its business requires it to be so qualified and each has in effect all federal, state, local and foreign governmental authorizations necessary for it to own or lease its properties and assets and to carry on its business as it is now conducted.

(d) Corporate Power. The Company and each of its Subsidiaries has the corporate power and authority to carry on its business as it is now being conducted and to own all its properties and assets; and it has the corporate power and authority to execute, deliver and perform its obligations under this Agreement and the Option Agreement and to consummate the transactions contemplated hereby and thereby.

(e) Corporate Authority.

(i) Subject, in the case of the consummation of the Merger, to receipt of the requisite approval and adoption of the "agreement of merger" (as such term is used in Section 251 of the DGCL) contained in this Agreement and the Merger by the holders of a majority of the outstanding shares of Company Common Stock entitled to vote thereon, the Company Board having unanimously adopted a resolution approving such "agreement of merger" and declaring its advisability, this Agreement, the Option Agreement and the transactions contemplated hereby and thereby have been authorized by all necessary corporate action of the Company and the Company Board (assuming that neither Nortel nor Sub is an "interested stockholder" of the Company under Section 203 of the DGCL immediately before the execution and delivery of this Agreement, the Option Agreement and the Stockholders' Agreement).

(ii) This Agreement and the Option Agreement are legal, valid and binding agreements of the Company, enforceable in accordance with their terms (except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and similar laws of general applicability relating to or affecting creditors' rights or by general equity principles, whether considered at law or in equity).

(f) No Defaults. Subject to receipt of the regulatory approvals, and expiration of the waiting periods, referred to in Section 5.03(r) and required filings under federal and state securities or other laws, the execution, delivery and performance of this Agreement and the Option Agreement and the consummation of the transactions contemplated hereby and thereby by the Company do not and will not (i) constitute a breach or violation of, or a default under, any law, rule or regulation or any judgment, decree, order, governmental permit or license, or agreement, indenture or instrument of the Company or of any of its Subsidiaries or to which the Company or any of its Subsidiaries or any of their

respective properties or assets are subject or bound, (ii) constitute a breach or violation of, or a default under, the articles or certificate of incorporation or by-laws of the Company or any of its Subsidiaries or (iii) require any consent or approval under any such law, rule, regulation, judgment, decree, order, governmental permit or license, agreement, indenture or instrument. Section 5.03(f) of the Company Disclosure Schedule contains a list of all consents of third parties required under any material agreement to be obtained by it or its subsidiaries prior to, or as a result of, the consummation of the Merger.

(g) Financial Reports and SEC Documents.

(i) With respect to the periods since December 31, 1995, the Company and its Subsidiaries have filed all reports and statements, together with any amendments required to be made thereto, that were required to be filed with the SEC.

(ii) The Company's Annual Reports on Form 10-K for the fiscal years ended December 31, 1996, 1997, and 1998, its Quarterly Reports on Form 10-Q for the periods ended March 31, 1999 and June 30, 1999 and all other reports, registration statements, definitive proxy statements or information statements filed or to be filed by it or any of its Subsidiaries subsequent to December 31, 1995 under the Securities Act, or under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act, in the form filed, or to be filed (collectively, the "Company SEC Documents"), with the SEC, as of the date filed (or, with respect to a document filed prior to the date of this Agreement and amended or superseded by a subsequent filing prior to the date of this Agreement, then on the date of such filing as so amended or superseded) (A) complied or will comply in all material respects as to form with the applicable requirements under the Securities Act or the Exchange Act, as the case may be; and (B) did not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; and each of the balance sheets contained in or incorporated by reference into any such Company SEC Document (including the related notes and schedules thereto) fairly presents and will fairly present the financial position of the entity or entities to which it relates as of its date, and each of the statements of income and changes in stockholders' equity and cash flows or equivalent statements in such Company SEC Documents (including any related notes and schedules thereto) fairly presents and will fairly present the results of operations, changes in stockholders' equity and changes in cash flows, as the case may be, of the entity or entities to which it relates for the periods to which they relate, in each case in accordance with U.S. GAAP consistently applied during the periods involved and Regulation S-X of the SEC, except in each case as may be noted therein, subject to normal year-end audit adjustments in the case of unaudited statements.

(iii) Since June 30, 1999, the Company has not incurred any liabilities (whether absolute, accrued, contingent or otherwise) that are of a nature that would be required to be

disclosed on a balance sheet of the Company or the footnotes related thereto prepared in conformity with U.S. GAAP, except (x) liabilities as set forth in the Company SEC Documents filed prior to the date of this Agreement (the "Company Filed SEC Documents") and (y) other liabilities incurred in the ordinary course of business consistent with past practice, which do not have, and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company.

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(h) Litigation. Except as disclosed on Section 5.03(h) of the Company Disclosure Schedule, no litigation, claim or other proceeding before any court or governmental agency is pending or, to the Company's Knowledge, threatened against the Company or any of its Subsidiaries which, if determined adversely to the Company or any such Subsidiary, would reasonably be expected to result in a loss of more than $100,000 or the imposition of any material restrictions on the business of the Company or any such Subsidiary or would materially impair the ability of the Company to perform its obligations under this Agreement.

(i) Compliance with Laws. The Company and each of its Subsidiaries:

(i) is in compliance with all applicable federal, state, local and foreign statutes, laws, regulations, ordinances, rules, judgments, orders or decrees applicable thereto or to the employees conducting such businesses;

(ii) has all permits, licenses, authorizations, orders and approvals of, and has made all filings, applications and registrations with, all Governmental Authorities that are required in order to permit them to conduct their businesses substantially as presently conducted, and all such permits, licenses, certificates of authority, orders and approvals are in full force and effect and, to its Knowledge, no suspension or cancellation of any of them is threatened; and

(iii) has received since December 31, 1998 no written notification or communication from any Governmental Authority (A) asserting that the Company or any of its Subsidiaries is not in compliance with any of the statutes, regulations or ordinances which such Governmental Authority enforces or (B) threatening to revoke any license, franchise, permit or governmental authorization.

(j) Material Contracts; Defaults. Except for this Agreement, the Option Agreement, and those agreements and other documents filed as exhibits to the Company Filed SEC Documents, as of the date of this Agreement, neither the Company nor any of its Subsidiaries is a party to or bound by (i) any "material contract" within the meaning of Item 601(b)(10) of the SEC's Regulation S-K or (ii) any non-competition agreement or other agreement or arrangement that materially restricts it or any of its Subsidiaries from competing in any line of business. Neither it nor any of its Subsidiaries is in default under any material contract, agreement, commitment, arrangement, lease, insurance policy or other instrument to which it is a party, by which its respective assets, business, or operations may be bound or affected, and there has not occurred any event that, with the lapse of time or the giving of notice or both, would constitute such a default.

(k) No Brokers. No action has been taken by the Company, its officers, directors or employees that would give rise to any valid claim against any party hereto for a brokerage commission, finder's fee or other like payment with respect to the transactions contemplated by this Agreement, excluding fees to be paid to Morgan Stanley Dean Witter (the "Company Financial Advisor") pursuant to the Company's written agreement

with such firm, a true and complete copy of which has been furnished to Nortel prior to the date of this Agreement.

(l) Employee Benefits; Employee Relations.

(i) Section 5.03(l) of the Company Disclosure Schedule contains a complete and correct list of each Company Plan. With respect to each Company Plan, true and complete copies have been provided to Nortel of: (i) the plan document or agreement or, with respect to any Company Plan that is not in writing, a written description of the terms thereof; (ii) the trust agreement, insurance contract or other documentation of any related funding arrangement; (iii) the summary plan description; (iv) the most recent required Internal Revenue Service Form 5500, including all schedules thereto; (v) any material communication to or from any Governmental Authority, including a written description of any oral communication; and (vi) all amendments or modifications to any such document.

(ii) Neither the Company nor any Subsidiary thereof has disseminated in writing or otherwise broadly or generally notified employees of any intent or commitment (whether or not legally binding) to create or implement any additional Plan or to amend, modify or terminate any Company Plan, except for amendments to any Company Plan that will not result in a material increase in the annual costs in respect of such plan incurred or to be incurred by the Company or any of its Subsidiaries.

(iii) Each Company Plan has been operated and administered, and is, in compliance with its terms and all applicable laws, rules and regulations (including ERISA and the Code and any regulations thereunder). There are no actions, suits, claims or governmental audits (other than routine claims for benefits in the ordinary course) pending or, to the Knowledge of the Company, threatened with respect to any Company Plan.

(iv) No Company Plan is, and neither the Company nor any Subsidiary thereof contributes to or has any material liability or obligation with respect to any Plan that is, (A) a multiemployer plan within the meaning of Section 4001(a)(3) of ERISA, (B) any single employer plan or other pension plan subject to Title IV or Section 302 of ERISA or Section 412 of the Code or (C) a multiple employer plan within the meaning of Section 4063 or 4064 of ERISA. Neither the Company nor any Subsidiary thereof is or has been a party to any collective bargaining or other collective labor agreement or understanding.

(v) There is no pending or, to the Knowledge of the Company, threatened labor dispute, strike, work stoppage or other concerted labor activity against the Company or any Subsidiary

thereof or involving any of their respective employees. During the three (3) year period immediately preceding the date hereof, to the Knowledge of the Company, there have been no organizing activities conducted by any labor organization or work council or the like with

respect to any employee of the Company or any subsidiary thereof. To the Knowledge of the Company, neither the Company nor any Subsidiary thereof, nor their respective businesses, has committed any unfair labor practices or violated in any material respect any applicable employment laws, regulations, ordinances, rules, orders or decrees in connection with the operation of the respective businesses of the Company or any Subsidiary thereof, and there is no pending or, to the Knowledge of the Company, threatened charge, complaint, investigation or proceeding against the Company or any of its Subsidiaries by or before the National Labor Relations Board, the Department of Labor, the Equal Employment Opportunity Commission, the Occupational Health and Safety Administration or any comparable state or municipal agency, or by or on behalf of any employee or class of employees or by or before any governmental agency relating to a purported violation of any applicable employment laws, regulations, ordinances, rules, orders or decrees.

(vi) Each Company Plan that is intended to qualify under Section 401(a) and/or 401(k) of the Code so qualifies and its trust is exempt from taxation under Section 501(a) of the Code. The Company and its Subsidiaries have timely paid all contributions, premiums and expenses payable to or in respect of each Company Plan under the terms thereof and in accordance with applicable law, including ERISA and the Code, and, to the extent any such contributions, premiums or expenses are not yet due, the liability therefor has been properly and adequately accrued on the Company's financial statements included in its Quarterly Report on Form 10-Q for the period ended June 30, 1999.

(vii) Neither the Company nor any of its Subsidiaries has incurred or will incur, either directly or indirectly (including as a result of an indemnification obligation), any material liability under or pursuant to any provision of Title I or IV of ERISA or the penalty, excise tax or joint and several liability provisions of the Code relating to employee benefit plans, and to the Knowledge of the Company, no event, transaction or condition has occurred, exists or is expected to occur which could reasonably be expected to result in any such material liability to the Company, any of its Subsidiaries or, after the Effective Time , Nortel or any of its Affiliates.

(viii) Except as set forth in Section 5.03(l)(viii) of the Disclosure Schedule, neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated hereby, either alone or in combination with another event (whether contingent or otherwise) will (A) entitle any current or former employee, consultant, officer or director of the Company or any of its Subsidiaries to any increased or modified benefit or payment; (B) increase the amount of compensation due to any such employee, consultant, officer or director; (C) accelerate the vesting, payment or funding of any compensation, stock-based

benefit, incentive or other benefit; (D) result in any "parachute payment" under Section 280G of the Code (whether or not such payment is considered to be reasonable compensation for services rendered); or

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(E) cause any compensation to fail to be deductible under Section 162(m), or any other provision of the Code or any similar foreign Law.

(m) Takeover Laws. The Company Board has validly approved this Agreement, the Option Agreement and the Stockholders' Agreement and the transactions contemplated hereby and thereby (including the Merger) for purposes of Section 203 of the DGCL. Except for Section 203 of the DGCL (which has been rendered inapplicable), to the Company's Knowledge, no "moratorium", "control share", "fair price" or other antitakeover laws and regulations of any state (collectively, "Takeover Laws") are applicable to the Merger or the other transactions contemplated by this Agreement, the Option Agreement and the Stockholders' Agreement.

(n) Rights Agreement. The Company Board, by a duly enacted resolution, has approved an amendment (in the form previously furnished to Nortel) to the Company Rights Agreement to the effect that none of Nortel, Sub or any of their respective affiliates shall become an "Acquiring Person" and that no "Shares Acquisition Date" or "Distribution Date" (as such terms are defined in the Company Rights Agreement) will occur as a result of the approval, execution or delivery of this Agreement, the Option Agreement, the Stockholders' Agreement or the Restrictive Covenant Agreements or the consummation of the transactions contemplated hereby or thereby. The Company Rights Agreement shall terminate and be of no further effect upon the Effective Time, without any consideration being payable with respect to outstanding Company Stockholder Protection Rights thereunder.

(o) Environmental Matters.

(i) As used in this Agreement, "Environmental Laws" means all applicable local, state, provincial and federal environmental, health and safety laws (including common law) and regulations in effect on the date of this Agreement, relating to the protection of human health and safety as affected by exposure to pollutants, contaminants, or hazardous or toxic wastes, substances or materials and to the protection of the environment including, without limitation, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation, and Liability Act, the Clean Water Act, the Federal Clean Air Act, and the Occupational Safety and Health Act, each as amended, regulations promulgated thereunder, and state counterparts.

(ii) (x) Neither the conduct or operations of the Company or its Subsidiaries nor any condition of any property presently or previously owned, leased or operated by any of them violates or, within the applicable statute or limitations period, violated Environmental Laws and (y) to the Knowledge of the Company, no condition has existed or event has occurred with respect to any of them or any such property that is reasonably likely to result in a Material Adverse Effect on the Company. Neither the Company nor any of its Subsidiaries has received any written notice from

any Governmental Authority that it or its Subsidiaries or the operation or condition of any property ever owned, leased, operated, held as collateral or held as a fiduciary by any of them are or were in

material violation of or otherwise are alleged to have material liability under any Environmental Law, including, but not limited to, responsibility (or potential responsibility) for the cleanup or other remediation of any pollutants, contaminants, or hazardous or toxic wastes, substances or materials at, on, beneath, or originating from any such property.

(iii) To the Company's Knowledge, none of the property currently owned, leased or operated by the Company or by its Subsidiaries is subject to, or as a result of this transaction would be subject to, (i) the New Jersey Site Recovery Act or any other state or local Environmental Laws which would impose restrictions, such as notice, disclosure or obtaining advance approval prior to this transaction, or (ii) any liens under any Environmental Laws.

(p) Intellectual Property.

(i) Except as set forth in Section 5.03(p)(i) of the Company Disclosure Schedule, the Company and its Subsidiaries own or are licensed to use all Intellectual Property Rights currently used in the business of the Company or its Subsidiaries or necessary to conduct the business of the Company and its Subsidiaries as currently conducted or currently anticipated to be conducted (the "Company Intellectual Property Rights").

(ii) Section 5.03(p)(ii) of the Company Disclosure Schedule contains an accurate and complete list as of the date of this Agreement of the following categories of Company Intellectual Property Rights: (A) Trademarks that are registered or for which an application for registration is pending; (B) Patents; (C) Software; (D) Copyrights that are registered or for which an application for registration is pending; and (E) mask works. Where listed Intellectual Property Rights are registered with a governmental authority or an application for registration is pending, the jurisdiction, registration or application number, date of registration or application, named owner and/or assignee, and international classes of registration are indicated, as applicable.

(iii) Section 5.03(p)(iii) of the Company Disclosure Schedule contains an accurate and complete list as of the date of this Agreement of all licenses and agreements under which the Company and its Subsidiaries are licensed to use third party Intellectual Property Rights. There are no licenses or sublicenses under which the Company and its Subsidiaries have granted rights to third parties to use the Company Intellectual Property Rights other than licenses and sublicenses which have been furnished to Nortel and licenses and sublicenses entered into in the ordinary course of business that conform in all material respects with the Company's standard form agreements, correct and complete copies of which have been furnished to Nortel. As soon as reasonably practicable following the date of

this Agreement, the Company will furnish to Nortel an accurate and complete list as of the date thereof of all licenses and sublicenses under which the Company and its Subsidiaries have granted rights to third parties to use the Company Intellectual Property Rights, other than licenses and

sublicenses entered into in the ordinary course of business that conform in all material respects with the Company's standard form agreements. Except as set forth in Section 5.03(p)(iii) of the Company Disclosure Schedule, the Company and its Subsidiaries are not required to pay any royalties, fees or other amounts to any Person in connection with the use of the Company Intellectual Property Rights.

(iv) The Company and its Subsidiaries have good and valid title to all Company Intellectual Property Rights owned by any of them and valid and enforceable license rights to all Company Intellectual Property Rights used under license, free and clear, to the Company's Knowledge, of all Liens, and other than as set forth in Section 5.03(p)(iv) of the Company Disclosure Schedule, to the Company's Knowledge, all Company Intellectual Property Rights are in full force and effect and will remain in full force and effect immediately following the Effective Time.

(v) The Company and its Subsidiaries have a practice to secure, and have secured, from all consultants and contractors who contribute or have contributed to the creation or development of Company Intellectual Property Rights valid written assignments by such persons to the Company and its Subsidiaries of the rights to such contributions the Company and its Subsidiaries do not already own by operation of law. The Company and its Subsidiaries have taken reasonable and appropriate steps to protect and preserve the confidentiality of all of their Trade Secrets, and to the Company's Knowledge there are no unauthorized uses, disclosures or infringements of any Company Intellectual Property Rights, and all use by, and disclosure to, any Person of Trade Secrets that comprise any part of the Company Intellectual Property Rights has been pursuant to the terms of a written agreement with such Person, and all use by the Company and its Subsidiaries of Trade Secrets owned by another Person has been pursuant to the terms of a written agreement with such Person or is otherwise lawful. Neither the Company Intellectual Property Rights nor the use or other exploitation thereof by the Company and its Subsidiaries (or any consultant, contractor or employee of the Company and its Subsidiaries who contributes to or has contributed to or participated in the creation or development of Company Intellectual Property Rights) in the conduct of their business, nor any product or service provided by the Company and its Subsidiaries, infringes on, misappropriates, breaches or violates any third party Intellectual Property Rights.

(vi) Neither the Company nor any of its Subsidiaries: (A) has been notified or is otherwise aware of any actual or threatened adverse proceeding of any Person pertaining to any challenge to the scope, validity or enforceability of, or the Company's ownership of, any of the Company Intellectual Property Rights; (B) is the subject of any claim of infringement or misappropriation by the Company or any of its Subsidiaries of any third party Intellectual Property Rights; or (C) has any claim

for infringement or misappropriation of, or breach of any license or agreement involving, any of the Company Intellectual Property Rights.

(q) Tax Matters.

(i)(A) All returns, declarations, reports, estimates, information returns and statements required to be filed on or before the Effective Date under federal, state, local or any foreign tax laws ("Tax Returns") with respect to it or any of its Subsidiaries, have been or will be timely filed, or requests for extensions have been timely filed and have not expired, except where a failure or failures to so timely file would not, individually or in the aggregate, be expected to be material; (B) all material Tax Returns filed by it are complete and accurate in all material respects; (C) all Taxes shown to be due and payable (without regard to whether such Taxes have been assessed) on such Tax Returns have been paid or adequate reserves have been established for the payment of such Taxes; (D) the proper and accurate amounts have been withheld from all employees (and timely paid to the appropriate Governmental Authority or set aside in an account for such purposes) for all periods through the Effective Date in compliance in all material respects with all Tax withholding provisions of applicable federal, state, local and foreign laws (including, without limitation, income, social security, and employment tax withholding for all types of compensation); (E) neither it nor any of its subsidiaries is a party to any tax sharing or similar agreement or any agreement pursuant to which it or any of its subsidiaries has an obligation to indemnify any party (other than it or one of its subsidiaries) with respect to Taxes; (F) all Taxes due with respect to completed and settled examinations or concluded litigation relating to it or any of its subsidiaries have been paid in full or adequate reserves have been established for the payment thereof; and (G) no material audit or examination or refund litigation with respect to any Tax Return is pending.

(ii) The Company has no reason to believe that any conditions exist that might prevent or impede the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code.

(r) Regulatory Approvals. No consents or approvals of, or filings or registrations with, any Governmental Authority or instrumentality are necessary to consummate the Merger except (i) as may be required under, and other applicable requirements of, the Hart-Scott Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), the Competition Act (Canada) and antitrust or other competition laws of other jurisdictions; (ii) as may be required by the by-laws, rules, regulations or policies of the Canadian Stock Exchanges in respect of the assumption by Nortel, and the exercisability by the holders, of the Company Stock Options and of the NYSE and the Canadian Stock Exchanges in respect of the Nortel Common Shares to be issued in the Merger and upon exercise of the Company Stock Options to be assumed by Nortel by reason of the Merger and the listing of such Nortel Common Shares on such stock exchanges; (iii) the filing with the SEC of the Company Proxy Statement and the filing and declaration of effectiveness of the Registration Statement; (iv) the filing of a certificate of merger with

the Secretary of State of the State of Delaware pursuant to the DGCL; (v) such filings as are required to be made or approvals as are required to be obtained under the securities or "Blue Sky" laws of various states in connection with the issuance of Nortel Common Shares in the Merger; (vi) such filings as are required to be made and exemption rulings

or orders as are required to be obtained under the Canada Business Corporations Act and Canadian securities laws; and (vii) as may be required under Section 721 of the U.S. Defense Production Act of 1950, as amended, and the rules promulgated thereunder ("Exon-Florio") and the rules and regulations promulgated by the U.S. Department of Defense.

(s) Fairness Opinion. On or before the date hereof, the Company Financial Advisor has delivered its opinion to the Company Board that the Exchange Ratio is fair, from a financial point of view, to the holders of Company Common Stock and such opinion has not been withdrawn.

(t) Year 2000 Compliance.

(i) Except as set forth in Section 5.03(t)(i) of the Company Disclosure Schedule, all Material Systems of the Company and its Subsidiaries have been remediated through modification, upgrade or replacement so that they are (A) able to receive, record, store, process, calculate, manipulate and output dates from and after January 1, 2000, time periods that include January 1, 2000 and information that is dependent on or relates to such dates or time periods, in the same manner and with the same accuracy, functionality, data integrity and performance as when dates or time periods prior to January 1, 2000 are involved and (B) able to store and output date information in a manner that is unambiguous as to century ("Year 2000 Compliant").

(ii) To the Company's Knowledge, the material suppliers and vendors of goods and services to the Company and its Subsidiaries ("Material Suppliers") are taking, or will in a timely manner take, such steps as are necessary to make their respective Material Systems Year 2000 Compliant by December 31, 1999.

(iii) All Company products shipped to customers since September 1, 1998, are Year 2000 Compliant in all material respects and have been tested by the Company (including custom testing of all third-party manufactured content of such Company products) to confirm such status. With respect to Company products shipped prior to such date, the Company and its Subsidiaries have undertaken reasonable efforts to notify all end-users of such products of the need to upgrade such products to be Year 2000 Compliant and of the need to audit any custom application products to identify any respects in which they are not Year 2000 Compliant.

(iv) The Company has furnished to Nortel copies of, or copies of all documents relating to, (A) all complaints, investigations or audits of any Governmental Authority, (B) all unresolved customer complaints, demands or claims (excluding routine requests for information regarding matters relating to the year 2000 turnover), (C) all attorney letters or demands and (D) all litigation, arbitrations or similar proceedings, in each

case insofar as they relate to the Year 2000 Compliant status of Company products, the cost of upgrading Company

products to a Year 2000 Compliant status or injuries and damages suffered as a result of the non-Year 2000 Compliant condition of Company products.

(v) The Company has provided to Nortel copies of its written contingency plan relating to interruptions to its business or the functioning of Company products caused by the year 2000 turnover, and the Company has no other contingency plans relating thereto.

(u) No Material Adverse Effect. Since June 30, 1999, and until the date hereof, the Company and its Subsidiaries have conducted their respective businesses in the ordinary course (excluding the incurrence of reasonable and customary liabilities related to this Agreement and the transactions contemplated hereby). Since June 30, 1999, and until the date hereof, no event has occurred or circumstance arisen that, individually or taken together with all other facts, circumstances and events (described in any paragraph of Section 5.03 or otherwise), has had or is reasonably likely to have a Material Adverse Effect with respect to the Company.

5.04. Representations and Warranties of Nortel and Sub. Subject to Sections 5.01 and 5.02 and except as Previously Disclosed, Nortel and Sub hereby represent and warrant to the Company as follows:

(a) Organization, Standing and Authority. Each of Nortel and Sub (x) is a corporation duly organized, validly existing and, in the case of Sub, in good standing under the laws of the jurisdiction of its organization and (y) is duly qualified to do business and, as applicable, is in good standing in the provinces of Canada and in the states of the United States and foreign jurisdictions where its ownership or leasing of property or assets or the conduct of its business requires it to be so qualified. Each of Nortel and Sub has in effect all federal, provincial, state, local and foreign governmental authorizations necessary for it to own or lease its properties and assets and to carry on its business as it is now conducted. Each of Nortel and Sub has made available to the Company a complete and correct copy of its constitutive documents, each as amended to date and in full force and effect.

(b) Shares.

(i) As of the date hereof, the authorized capital stock of Nortel consists solely of (A) an unlimited number of Nortel Common Shares, of which 1,361,621,637 shares were outstanding as of September 30, 1999; (B) an unlimited number of Class A Preferred Shares issuable in series, without nominal or par value, of which 200 Cumulative Redeemable Class A Preferred Shares Series 4 (which are exchangeable at certain times, and subject to certain conditions, into Nortel Common Shares), 16,000,000 Cumulative Redeemable Class A Preferred Shares Series 5 (which are convertible at certain times, and subject to certain conditions, into an equal number of Cumulative Redeemable Class A Preferred Shares Series 6) and 14,000,000 Non-cumulative Redeemable Class A Preferred Shares Series 7 (which are

convertible at certain times, and subject to certain conditions, into an equal number of Non-cumulative

Redeemable Class A Preferred Shares Series 8) were outstanding as of September 30, 1999; and (C) an unlimited number of Class B Preferred Shares, issuable in series, without nominal or par value, of which no shares were outstanding as of September 30, 1999. As of the date hereof, there are no outstanding Rights to acquire capital stock from Nortel other than pursuant to the stock option and other employee compensation plans of Nortel and its subsidiaries, Nortel's shareholder dividend reinvestment and stock purchase plan, the exchange rights associated with Nortel's Series 4 Preferred Shares that are described in the Nortel SEC Documents and under the Agreement and Plan of Merger dated as of August 24, 1999 by and among Nortel, a subsidiary of Nortel and Periphonics Corporation.

(ii) The authorized capital stock of Sub consists of one share of common stock, $0.0001 per share, which one share is outstanding and is owned directly by Nortel. Sub has not conducted any business prior to the date hereof and has no Subsidiaries and no assets, liabilities or obligations of any nature other than incident to its formation and incident to this Agreement.

(iii) The outstanding shares of Nortel's and Sub's capital stock have been duly authorized and are validly issued and outstanding, fully paid and nonassessable, and subject to no preemptive rights (and were not issued in violation of any preemptive rights). As of the date hereof, there are no shares of capital stock of Sub authorized and reserved for issuance and Sub does not have any Rights issued or outstanding with respect to its capital stock or any commitment to authorize, issue or sell any such shares or Rights, except pursuant to this Agreement.

(iv) The Nortel Common Shares to be issued in exchange for shares of Company Common Stock in the Merger or upon exercise of Company Stock Options to be assumed by Nortel by reason of the Merger, when issued will be duly authorized, validly issued, fully paid and nonassessable and will not have been issued in violation of any subscriptive or preemptive rights.

(c) Corporate Power. Each of Nortel and Sub has the corporate power and authority to carry on its business as it is now being conducted and to own all its properties and assets; and each of Nortel and Sub has the corporate power and authority to execute, deliver and perform its obligations under this Agreement and, in the case of Nortel, the Option Agreement and to consummate the transactions contemplated hereby and, in the case of Nortel, thereby.

(d) Corporate Authority. (i) This Agreement and the transactions contemplated hereby, including the issuance of Nortel Common Shares in the Merger or upon the exercise of Company Stock Options to be assumed by Nortel by reason of the Merger, and the Option Agreement and the transactions contemplated thereby, as applicable, have been authorized and approved by all necessary corporate action of Nortel (no shareholder approvals being required under the Canada Business Corporations Act), Sub, the Nortel Board and the Board of Directors of Sub prior to the

date hereof (which action has not been rescinded or modified in any way) and (ii) each of this Agreement and, in the case

of Nortel, the Option Agreement, is a legal, valid and binding agreement of each of Nortel and Sub, enforceable in accordance with its terms (except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and similar laws of general applicability relating to or affecting creditors' rights or by general equity principles, whether considered at law or in equity).

(e) No Defaults. Subject to receipt of the regulatory approvals, and expiration of the waiting periods, referred to in Section 5.04(i) and any required filings under federal, state and provincial securities laws and the Canada Business Corporations Act, the execution, delivery and performance of this Agreement and, as applicable, the Option Agreement and the consummation of the transactions contemplated hereby and, as applicable, thereby by Nortel and Sub do not and will not (i) constitute a material breach or violation of, or a material default under, any law, rule or regulation or any judgment, decree, order, governmental permit or license, or agreement, indenture or instrument of Nortel or of any of Nortel's Subsidiaries or to which it or any of its Subsidiaries or any of their respective properties or assets are subject or bound, (ii) constitute a breach or violation of, or a default under, the articles or certificate of incorporation or by-laws of either Nortel or Sub, or (iii) require any consent or approval under any such material law, rule, regulation, judgment, decree, order, governmental permit or license, agreement, indenture or instrument.

(f) Financial Reports and SEC Documents. Nortel's Annual Reports on Form 10-K for the fiscal years ended December 31, 1996, 1997 and 1998, its Quarterly Reports on Form 10-Q for the periods ended March 31, 1999 and June 30, 1999, and all other reports or registration statements, filed or to be filed by it or any of its Subsidiaries subsequent to December 31, 1996 under the Securities Act, or under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act, in the form filed, or to be filed (collectively, the "Nortel SEC Documents"), with the SEC, as of the date filed (A) complied or will comply in all material respects as to form with the applicable requirements under the Securities Act or the Exchange Act, as the case may be; and (B) did not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; and each of the balance sheets contained in or incorporated by reference into any such Nortel SEC Document (including the related notes and schedules thereto) fairly presents and will fairly present the financial position of the entity or entities to which it relates as of its date, and each of the statements of income and changes in stockholders' equity and cash flows or equivalent statements in such Nortel SEC Documents (including any related notes and schedules thereto) fairly presents and will fairly present the results of operations, changes in stockholders' equity and changes in cash flows, as the case may be, of the entity or entities to which it relates for the periods to which they relate, in each case in accordance with Canadian GAAP consistently applied during the periods involved and Regulation S-X of the SEC, except in each case as may be noted therein, subject to normal year-end audit adjustments in the case of unaudited statements. The books and records of Nortel and its Subsidiaries have

been, and are being, maintained in all material respects in accordance with Canadian GAAP and any other applicable legal and accounting requirements and reflect only actual transactions.

(g) Litigation. Except as Previously Disclosed, no litigation, claim or other proceeding before any court or governmental agency that is pending or, to Nortel's Knowledge, threatened against Nortel or any of its Subsidiaries would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Nortel.

(h) No Brokers. No action has been taken by it that would give rise to any valid claim against any party hereto for a brokerage commission, finder's fee or other like payment with respect to the transactions contemplated by this Agreement, excluding fees to be paid to Credit Suisse First Boston.

(i) Regulatory Approvals. No consents or approvals of, or filings or registrations with, any Governmental Authority or with any third party are necessary to consummate the Merger except for (i) as may be required under, and other applicable requirements of, the HSR Act and the Competition Act (Canada); (ii) as may be required by the by-laws, rules, regulations or policies of the Canadian Stock Exchanges in respect of the assumption by Nortel, and the exercisability by the holders, of the Company Stock Options and of the NYSE and the Canadian Stock Exchanges in respect of the Nortel Common Shares to be issued in the Merger and upon the exercise of the Company Stock Options to be assumed by Nortel by reason of the Merger and the listing of such Nortel Common Shares on such stock exchanges; (iii) the filing with the SEC of the Company Proxy Statement in definitive form and the filing and declaration of effectiveness of the Registration Statement; (iv) the filing of a certificate of merger with the Secretary of State of the State of Delaware pursuant to the DGCL; (v) such filings as are required to be made or approvals as are required to be obtained under the securities or "Blue Sky" laws of various states in connection with the issuance of Nortel Common Shares in the Merger; (vi) such filings as are required to be made and exemption rulings or orders as are required to be obtained under the Canada Business Corporations Act and Canadian securities laws; and (vii) as may be required under Exon-Florio and the rules and regulations promulgated by the U.S. Department of Defense.

(j) No Material Adverse Effect. Since December 31, 1998, until the date hereof, no event has occurred or circumstance arisen that, individually or taken together with all other facts, circumstances and events (described in any paragraph of Section 5.04 or otherwise), has had or is reasonably likely to have a Material Adverse Effect with respect to Nortel.

ARTICLE VI

COVENANTS

The Company hereby covenants to and agrees with Nortel, and each of Nortel and Sub hereby covenants to and agrees with the Company, that:

6.01. Reasonable Best Efforts. Subject to the terms and conditions of this Agreement, it shall use its reasonable best efforts in good faith to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or desirable (including obtaining any consents of third

parties required under any agreement to be obtained by it or its subsidiaries prior to, or as a result of, the consummation of the Merger so that such agreement is

not terminable as a result of the Merger), or advisable under applicable laws, so as to permit consummation of the Merger as promptly as practicable and otherwise to enable consummation of the transactions contemplated hereby and shall cooperate fully with the other party hereto to that end. In case at any time after the Effective Time any further action is necessary or desirable to carry out the purpose of this Agreement or to vest the Surviving Corporation with full title to all properties, assets, rights, approvals, immunities and franchises of any of the parties to the Merger, the proper officers and directors of each party to this Agreement and their respective Subsidiaries shall take all such necessary action as may be reasonably requested by, and at the sole expense of, Nortel.

6.02. Stockholder Approvals. The Company shall take, in accordance with this Agreement, applicable law, applicable NASD rules and its certificate of incorporation and by-laws, all action necessary to convene an appropriate meeting of stockholders of the Company to consider and vote upon the approval and adoption of the "agreement of merger" (as such term is used in Section 251 of the DGCL) contained in this Agreement and the Merger and any other matters required to be approved by the Company's stockholders for consummation of the Merger (including any adjournment or postponement, the "Company Meeting") as promptly as practicable. The Company Board, subject to Section 6.06, shall at all times recommend such approval and shall take all reasonable lawful action to solicit such approval by its stockholders.

6.03. Registration Statement. (a) Each of Nortel and the Company agrees to cooperate in the preparation of a registration statement on Form S-4 (the "Registration Statement") to be filed by Nortel with the SEC in connection with the issuance of Nortel Common Shares in the Merger (including the proxy statement and prospectus and other proxy solicitation materials of the Company constituting a part thereof (the "Company Proxy Statement") and all related documents). The Registration Statement and the Company Proxy Statement shall comply as to form in all material respects with the applicable provisions of the Securities Act and the Exchange Act and the rules and regulations thereunder. Provided the other party has cooperated as required above, the Company agrees to file the Company Proxy Statement in preliminary form with the SEC as promptly as reasonably practicable, and Nortel agrees to file the Registration Statement with the SEC as promptly as reasonably practicable after any SEC comments with respect to the preliminary Proxy Statement are resolved or at such earlier time as Nortel may elect. Each of Nortel and the Company shall, as promptly as practicable after receipt thereof, provide copies of any written comments received from the SEC with respect to the Registration Statement and the Company Proxy Statement, as the case may be, to the other party, and advise the other party of any oral comments with respect to the Registration Statement or the Company Proxy Statement received from the SEC. Each of Nortel and the Company agrees to use reasonable best efforts to cause the Registration Statement to be declared effective under the Securities Act as promptly as reasonably practicable after filing thereof, and the Company agrees to mail the Company Proxy Statement to its shareholders as promptly as practicable after the Registration Statement is declared effective. Nortel also agrees to use reasonable best efforts to obtain all necessary state securities law or "Blue Sky" permits and approvals required to carry out the transactions contemplated by this Agreement. The Company agrees to furnish to Nortel all information concerning the Company, its Subsidiaries, officers, directors and stockholders as may be reasonably requested in connection with the foregoing.

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(b) Each of Nortel and the Company agrees, as to itself and its Subsidiaries, that none of the information supplied or to be supplied by it for inclusion or incorporation by reference in (i) the Registration Statement will, at the time the Registration Statement and each amendment or supplement thereto, if any, becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading and (ii) the Company Proxy Statement and any amendment or supplement thereto will, at the date of mailing to stockholders and at the time of the Company Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading.

(c) Nortel agrees to advise the Company, promptly after Nortel receives notice thereof, of the time when the Registration Statement has become effective or any supplement or amendment has been filed, of the issuance of any stop order or the suspension of the qualification of the Nortel Common Shares for offering or sale in any jurisdiction, of the initiation or threat of any proceeding for any such purpose, or of any request by the SEC for the amendment or supplement of the Registration Statement or for additional information.

(d) Nortel will use its reasonable best efforts to obtain, and will provide evidence reasonably satisfactory to the Company, of all necessary rulings or orders of Canadian securities regulatory authorities exempting the distribution by Nortel of the Nortel Common Shares and options to purchase Nortel Common Shares under the Merger and the resale of Nortel Common Shares issued under the Merger in Canada as contemplated by this Agreement from the registration and prospectus requirements under applicable Canadian securities laws on terms reasonably satisfactory to Nortel and the Company.

6.04. Press Releases. Nortel and the Company shall jointly agree on an initial press release with respect to the transactions contemplated hereby and in compliance with applicable law, and shall cooperate in connection with any subsequent press releases or written statements for general circulation. The Company will not, without the prior approval of Nortel, issue any other press release or written statement for general circulation (including any written statement circulated to employees, customers or other third parties) relating to the transactions contemplated hereby, except, based on the advice of counsel, as otherwise required by applicable law or regulation or NASD rules and only after consulting, or using its reasonable best efforts to consult, with Nortel.

6.05. Access; Information. (a) Upon reasonable notice and subject to applicable laws relating to the exchange of information, the Company shall afford to the officers, employees, counsel, accountants and other authorized representatives of Nortel, reasonable access, during normal business hours throughout the period prior to the Effective Date, to all of its properties, books, contracts, commitments and records and, during such period, it shall furnish promptly to Nortel (i) a copy of each material report, schedule and other document filed by it pursuant to the requirements of federal or state securities laws, and (ii) all other information concerning the business, properties and personnel of it as Nortel may reasonably request; provided that such information may not be used for any purpose unrelated to the consummation of the transactions contemplated by this Agreement. The Company shall promptly inform Nortel of any material litigation, claim or other proceeding before any court or other governmental

authority that arises following the date of this Agreement and any material development in any such existing material litigation, claim or other proceeding. The Company and its Subsidiaries shall not be required to provide access to or to disclose information where such access or disclosure would contravene any law, rule, regulation, order, judgment, decree or agreement. Nortel and the Company shall make appropriate substitute disclosure arrangements under circumstances in which the restrictions of the preceding sentence apply.

(b) Subject to the requirements of applicable law, pending consummation of the Merger, all non-public information provided by the Company to Nortel and Nortel to the Company pursuant to this Agreement or otherwise will remain subject to the obligations of Nortel and the Company under the Confidentiality Agreement.

(c) No investigation by a party, pursuant to this Section 6.05 or otherwise, shall affect or be deemed to modify any representation or warranty of the other party contained herein.

6.06. Acquisition Proposals. (a) The Company shall not, and shall cause its Subsidiaries and the officers, directors, agents and advisors of the Company and its Subsidiaries not to, initiate, solicit or encourage inquiries or proposals with respect to, or engage in any negotiations concerning, or provide any confidential information to, or have any discussions with, any person relating to, any Acquisition Proposal. Notwithstanding the foregoing, the Company shall be permitted to engage in any discussions or negotiations with, or provide any information to, any Person in response to a bona fide written Acquisition Proposal by any such Person received by the Company, if and only to the extent that in each such case such proposal was not solicited or encouraged in violation of this Agreement and (i) the Company Meeting shall not have occurred; (ii) the Company Board determines in good faith that such Acquisition Proposal would, if consummated, constitute a Superior Proposal and is reasonably likely to be consummated; (iii) the Company Board determines, in good faith after consultation with outside counsel, that such action is legally required as a matter of the fiduciary duties of the directors under applicable law; and (iv) prior to providing any information or data to any Person or entering into discussions or negotiations with any Person, the Company receives from such Person an executed confidentiality agreement containing terms no less restrictive with respect to such Person than the terms of the Confidentiality Agreement with respect to Nortel. The Company shall notify Nortel promptly, but in any event within 24 hours, of any such inquiries, proposals, or offers received by, any such information requested from, or any such discussions or negotiations sought to be initiated or continued with, any of its representatives indicating, in connection with such notice, the name of such Person and the material terms and conditions of any proposals or offers. For the purposes of this Agreement, "Superior Proposal" shall mean any bona fide written Acquisition Proposal made by a third party that was not solicited or encouraged in violation of this Agreement and which the Company Board determines in its good faith judgment (based on the opinion to such effect by a financial advisor of nationally recognized reputation) to be materially more favorable to the stockholders of the Company than the transactions contemplated by this Agreement. The Company shall immediately cease and cause to be terminated any activities, discussions or negotiations conducted prior to the date of this Agreement with any parties other than Nortel with respect to any Acquisition Proposal. The Company shall advise Nortel of any material developments with respect to any proposal as to which the Company is exercising its rights pursuant to the second sentence of this Section 6.06 promptly upon the occurrence thereof.

(b) Subject to Section 8.01 (e)(ii), neither the Company Board nor any committee thereof shall (i) approve or recommend, or propose to approve or recommend, any Acquisition Proposal, (ii) cause the Company or any of its Subsidiaries to enter into any letter of intent, agreement in principle, acquisition agreement, merger agreement or other similar agreement with respect to any Acquisition Proposal or (iii) other than in accordance with subsection (c) below, withdraw or modify, in a manner adverse to Nortel, or fail to make, the recommendation to Company stockholders of such "agreement of merger."

(c) Notwithstanding subsection (b)(iii) above, in the event (but only in the event) that the Company Board determines in good faith, after consultation with outside counsel, that, having received a Superior Proposal, such action is legally required as a matter of the fiduciary duties of the directors under applicable law, the Company Board may withdraw or modify its recommendation to Company stockholders of the "agreement of merger" contained in this Agreement (or not recommend it in the Company Proxy Statement), but only at a time that is after the third Business Day following Nortel's receipt of written notice advising Nortel that the Company Board has received a proposal which may be a Superior Proposal, specifying the material terms and conditions of such proposal and identifying the Person making such proposal. Nothing in this Section 6.06 shall affect the Company's obligations under the first sentence of Section 6.02.

(d) Nothing in this Section 6.06 shall (i) prohibit the Company from complying, to the extent applicable, with Rules 14d-9 and 14e-2(a) promulgated under the Exchange Act with respect to an Acquisition Proposal or (ii) permit the Company to violate its obligations under the first sentence of Section 6.02.

6.07. Affiliate Agreements. (a) Not later than the mailing of the Company Proxy Statement, the Company shall deliver to Nortel a schedule of each person that, to the best of its knowledge, is or is reasonably likely to be, as of the date of the Company Meeting, deemed to be an "affiliate" of it (each, a "Company Affiliate") as that term is used in Rule 145 under the Securities Act. Thereafter, the Company shall promptly notify Nortel upon becoming aware of any other person that is or is reasonably likely to be, as of the date of the Company Meeting, deemed to be a Company Affiliate.

(b) The Company shall use its reasonable best efforts to cause each person who may be deemed to be a Company Affiliate to execute and deliver to Nortel on or before the date of mailing of the Company Proxy Statement (or, in the case of any person identified as a possible Company Affiliate after such date, as promptly thereafter as possible) an agreement in the form attached hereto as Exhibit A.

6.08. Takeover Laws. Subject to Section 6.06, no party shall take any action that would cause the transactions contemplated by this Agreement, the Option Agreement and the Stockholders' Agreement to be subject to requirements imposed by any Takeover Law and each of them shall take all necessary steps within its control to exempt (or ensure the continued exemption of), or minimize the effect on, the transactions contemplated by this Agreement and the Option Agreement from, or if necessary challenge the validity or applicability of, any applicable Takeover Law, as now or hereafter in effect, including, without limitation, Section

203 of the DGCL or any other Takeover Laws that purport to apply to this Agreement or the Option Agreement or the transactions contemplated hereby or

thereby.

6.09. The Company Rights Agreement. The Company Board shall take all further action (in addition to that referred to in Section 5.03(n)) necessary (including redeeming the Company Stockholder Protection Rights immediately prior to the Effective Time or amending the Company Rights Agreement) in order to render the Company Stockholder Protection Rights inapplicable to the Merger and the other transactions contemplated by this Agreement, the Option Agreement and the Stockholders' Agreement. The Company Board shall take no action (including redeeming the Company Stockholder Protection Rights or amending the Company Rights Agreement) in order to render the Company Stockholder Protection Rights inapplicable in connection with any Acquisition Proposal.

6.10. Shares Listed. Nortel shall use its reasonable best efforts to list, prior to the Effective Date, on the NYSE and the Canadian Stock Exchanges, subject to official notice of issuance, the Nortel Common Shares to be issued to the holders of Company Common Stock in the Merger and upon exercise of Company Stock Options to be assumed by Nortel by reason of the Merger.

6.11. Regulatory Applications. (a) Nortel and the Company and their respective Subsidiaries shall cooperate and use their respective reasonable best efforts (i) to prepare all documentation, to effect all filings (including, without limitation, filings under the HSR Act and the Competition Act (Canada)) and to obtain all permits, consents, approvals and authorizations of all third parties and Governmental Authorities necessary to consummate the transactions contemplated by this Agreement and (ii) to cause the Merger to be consummated as expeditiously as reasonably practicable. Each of Nortel and the Company shall have the right to review in advance, and to the extent practicable each will consult with the other, in each case subject to applicable laws relating to the exchange of information, with respect to, all material written information submitted to any third party or any Governmental Authority in connection with the transactions contemplated by this Agreement. In exercising the foregoing right, each of the parties hereto agrees to act reasonably and as promptly as practicable. Each party hereto agrees that it will consult with the other party hereto with respect to the obtaining of all material permits, consents, approvals and authorizations of all third parties and Governmental Authorities necessary or advisable to consummate the transactions contemplated by this Agreement and each party will keep the other party apprised of the status of material matters relating to completion of the transactions contemplated hereby.

(b) Each party agrees, upon request, to furnish the other party with all information concerning itself, its Subsidiaries, directors, officers and stockholders and such other matters as may be reasonably necessary or advisable in connection with any filing, notice or application made by or on behalf of such other party or any of its Subsidiaries to any third party or Governmental Authority.

(c) In furtherance and not in limitation of the covenants of the parties contained in Sections 6.11(a) and (b), if any objections are asserted with respect to the transactions contemplated hereby under any Regulatory Law or if any suit is instituted or threatened by any Governmental Authority or any private party challenging any of the transactions contemplated

hereby as violative of any Regulatory Law, each of Nortel and the Company shall use its reasonable best efforts to resolve any such objections or challenge as such Governmental Authority or private party may have to such transactions under such Regulatory Law so as to permit consummation of the transactions contemplated by this Agreement, and if any administrative or judicial action or

proceeding, including any proceeding by a private party, is instituted (or threatened to be instituted) challenging any transaction contemplated by this Agreement as violative of any Regulatory Law, each of Nortel and the Company shall cooperate in all respects with each other and use its respective reasonable best efforts to contest and resist any such action or proceeding and to have vacated, lifted, reversed or overturned any decree, judgment, injunction or other order, whether temporary, preliminary or permanent, that is in effect and prohibits, prevents or restricts consummation of the transactions contemplated by this Agreement. Notwithstanding the foregoing or any other provision of this Agreement, nothing in this Section 6.11 shall limit a party's right to terminate this Agreement pursuant to Section 7.01(b) or 8.01(d) so long as such party has theretofore complied in all respects with its obligations under this Section 6.11.

(d) Nothing contained in this Agreement shall require Nortel or any of its Subsidiaries to sell or otherwise dispose of, or to hold separately, or permit the sale or other disposition of, any assets of Nortel, the Company or their respective Subsidiaries, or require Nortel to refrain from exercising full authority over the Company and its Subsidiaries after the Effective Time, whether as a condition to obtaining any approval from a Governmental Authority or any other Person or for any other reason.

6.12. Indemnification. (a) Following the Effective Date and until the expiration of any applicable statutory limitations period, the Surviving Corporation shall indemnify, defend and hold harmless the present and former directors and officers of the Company and its Subsidiaries (each, an "Indemnified Party") against all costs or expenses (including reasonable attorneys' fees), judgments, fines, losses, claims, damages or liabilities (collectively, "Costs") incurred in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of actions or omissions occurring at or prior to the Effective Time (including, without limitation, the transactions contemplated by this Agreement and the Option Agreement) to the fullest extent that the Company is permitted to indemnify its directors and officers under the laws of the State of Delaware, the Company Certificate and the Company's by-laws as in effect on the date hereof (and the Surviving Corporation shall also advance expenses as incurred to the fullest extent permitted under applicable law).

(b) For a period of six years from the Effective Time, Nortel shall provide a "runoff" policy with respect to that portion of director's and officer's liability insurance that serves to cover the present and former officers and directors of the Company and its Subsidiaries (determined as of the Effective Time) with respect to claims against such directors and officers arising from facts or events which occurred at or before the Effective Time, which "runoff" insurance shall contain at least the same maximum coverage and amounts to such officers and directors, and contain terms and conditions no less advantageous, as that coverage currently provided by the Company; provided, however, that in no event shall Nortel be required to expend to maintain or obtain the insurance called for by this Section 6.12(b) more than 200 percent of the current annual amount expended by the Company to maintain or procure such

directors and officers insurance coverage for the current year (the "Insurance Amount"); provided, further, that if Nortel is unable to maintain or obtain the insurance called for by this Section 6.12(b), Nortel shall use its reasonable best efforts to obtain as much comparable insurance as is available for the Insurance Amount; provided, further, that officers and directors of the Company or any Subsidiary of the Company may be required to make application and provide customary representations and warranties to Nortel's insurance carrier for the

purpose of obtaining such insurance.

(c) Any Indemnified Party wishing to claim indemnification under Section 6.12(a), upon learning of any claim, action, suit, proceeding or investigation described above, shall promptly notify Nortel thereof; provided, that the failure so to notify shall not affect the obligations of Nortel under Section 6.12(a) unless and to the extent such failure materially increases Nortel's liability under such subsection (a).

(d) If Nortel or any of its successors or assigns shall consolidate with or merge into any other entity and shall not be the continuing or surviving entity of such consolidation or merger or shall transfer all or substantially all of its assets to any entity, then and in each case, proper provision shall be made so that the successors and assigns of Nortel shall assume the obligations set forth in this Section 6.12.

6.13. Certain Employee Benefit Matters. (a) For the one year period ending on the first anniversary of the Effective Date (the "Continuation Period"), the Surviving Corporation shall, or shall cause its Subsidiaries to, (i) pay to each of their respective employees, during any portion of the Continuation Period that such employee is employed by the Surviving Corporation or any such Subsidiary, an annual salary or hourly wage rate, as applicable, that is no less than the annual salary or hourly wage rate payable to such employee immediately prior to the Effective Time and (ii) provide such employees in the aggregate with employee benefits, during any portion of the Continuation Period that such employees are employed by the Surviving Corporation or any such Subsidiary, that are substantially similar in the aggregate to the employee benefits provided to such employees pursuant to the Company Plans (other than equity based benefits) immediately prior to the Effective Time. Notwithstanding any other provision herein, none of the Surviving Corporation, any of its Subsidiaries or Nortel will have any obligation to continue the employment of any such employee for any period following the Effective Time.

(b) With respect to the Plans, if any, of Nortel or Nortel's Subsidiaries in which employees of the Company or its Subsidiaries ("Company Employees") become eligible to participate after the Effective Time (the "Nortel Plans"), Nortel shall, or shall cause its Subsidiaries or the Surviving Corporation to: (i) with respect to each Nortel Plan that is a medical or health plan, (x) waive any exclusions for pre-existing conditions under such Nortel Plan that would result in a lack of coverage for any condition for which the applicable Company Employee would have been entitled to coverage under the corresponding Company Plan in which such Company Employee was an active participant immediately prior to his or her transfer to the Nortel Plan; (y) waive any waiting period under such Nortel Plan to the extent that such period exceeds the corresponding waiting period under the corresponding Company Plan in which such Company Employee was an active participant immediately prior to his or her transfer to the Nortel Plan (after taking into account the service credit provided for herein for purposes of

satisfying such waiting period); and (z) provide each Company Employee with credit for any co-payments and deductibles paid by such Company Employee prior to his or her transfer to the Nortel Plan (to the same extent such credit was given under the analogous Company Plan prior to such transfer) in satisfying any applicable deductible or out-of-pocket requirements under such Nortel Plan for the plan year that includes such transfer; and (ii) recognize service of the Company Employees with the Company or any of its Subsidiaries for purposes of eligibility to participate and vesting credit, and, solely with respect to vacation benefits, benefit accrual in any Nortel Plan in which the Company

Employees are eligible to participate after the Effective Time to the extent that such service was recognized for that purpose under the analogous Company Plan prior to such transfer; provided that the foregoing shall not apply to the extent it would result in duplication of benefits. Nothing in this paragraph shall be interpreted to require Nortel to provide for the participation of any Company Employee in any Nortel Plan.

(c) To the extent applicable, Nortel and the Company shall each take such reasonable steps as are required to cause the disposition and acquisition of equity securities (including derivative securities) pursuant to Article III of this Agreement in connection with the consummation of the Merger by each individual who is an officer or director of the Company to qualify for exemption from Section 16(b) of the Exchange Act pursuant to Rule 16b-3(e) promulgated under the Exchange Act.

(d) For the one year period following the Effective Time, Company Employees shall be eligible to participate in severance benefit plans that provide severance benefits on substantially the same terms and conditions and in substantially the same amounts as the severance benefits provided to similarly situated employees of Nortel and its Subsidiaries. The service of the Company Employees with the Company or any of its Subsidiaries completed prior to the Effective Time shall be recognized for purposes of determining the severance benefits, if any, payable to Company Employees at any time after the Effective Time.

6.14. Accountants' Letters. The Company shall use its reasonable best efforts to cause to be delivered to Nortel a letter or letters of PricewaterhouseCoopers L.L.P. or Deloitte & Touche LLP, independent auditors (the "Company's Accountants"), and Nortel shall use its reasonable best efforts to cause to be delivered to the Company a letter of Deloitte & Touche LLP, independent auditors ("Nortel's Accountants"), each dated a date within two Business Days of the date on which the Registration Statement shall become effective and addressed to such other party, and in form and substance customary for "comfort" letters delivered by independent accountants (x) in the case of the Company's Accountants, in accordance with Statement of Accounting Standards No. 72 and (y) in the case of Nortel's Accountants, in accordance with the Handbook of The Canadian Institute of Chartered Accountants.

6.15. Notification of Certain Matters. (a) Each of the Company and Nortel shall give prompt notice to the other of any fact, event or circumstance known to it that would cause or constitute a material breach of any of its representations, warranties, covenants or agreements contained herein.

(b) Nortel shall promptly notify the Company, and the Company shall promptly notify Nortel, in writing, of any notice or other communication from any regulatory authority or

self-regulatory organization in connection with the transactions contemplated by this Agreement or the Option Agreement.

(c) Each of Nortel and the Company shall promptly notify the other of any fact, event or circumstance known to it that could reasonably be expected to, individually or taken together with all other facts, events and circumstances known to it, cause the Merger to fail to qualify as a "reorganization" within the meaning of Section 368(a) of the Code.

6.16. Certain Tax Matters. Each of Nortel and the Company will use its reasonable best efforts to cause the Merger to qualify as, and will not

(either before or after the Effective Date) take any action that is reasonably likely to prevent the Merger from qualifying as, a reorganization within the meaning of Section 368(a) of the Code that is not subject to Section 367(a)(1) of the Code pursuant to U.S. Treasury Regulation Section 1.367(a)-3(c) (other than with respect to holders of Company Common Stock who are or will be "5% transferee shareholders" within the meaning of U.S. Treasury Regulation Section 1.367(a)-3(c)(5)(ii)), and will use its reasonable best efforts to timely satisfy, or cause to be timely satisfied, all applicable tax reporting and filing requirements contained in the Code and U.S. Treasury Regulations with respect to the Merger, including the reporting requirements contained in U.S. Treasury Regulation Section 1.367(a)-3(c)(6).

ARTICLE VII

CONDITIONS TO CONSUMMATION OF THE MERGER

7.01. Conditions to Each Party's Obligation to Effect the Merger. The respective obligation of each of Nortel, Sub and the Company to consummate the Merger is subject to the fulfillment or written waiver by Nortel, Sub and the Company prior to the Effective Time of each of the following conditions:

(a) Stockholder Approvals. This "agreement of merger" (as that term is used in Section 251 of the DGCL) and the Merger shall have been duly adopted by the requisite vote of the stockholders of the Company.

(b) Regulatory Approvals. All regulatory approvals required to consummate the transactions contemplated hereby shall have been obtained and shall remain in full force and effect and all statutory waiting periods in respect thereof shall have expired and (in the case of Nortel's obligation to consummate the Merger) no such approvals shall contain any conditions, restrictions or requirements which would reasonably be expected to (i) following the Effective Time, have a Material Adverse Effect on Nortel and its Subsidiaries taken as a whole or on the Surviving Corporation or (ii) require Nortel to take any action that it is not required to take under Section 6.11(d) hereof.

(c) No Injunction. No Governmental Authority of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, judgment, decree, injunction or other order (whether temporary, preliminary or permanent) which is in effect and enjoins or prohibits consummation of the Merger.

(d) Registration Statement. The Registration Statement shall have become effective under the Securities Act and no stop order suspending the effectiveness of the Registration Statement shall have been issued and be in effect and no proceedings for that purpose shall have been initiated or threatened by the SEC and not concluded or withdrawn.

(e) Listing. The Nortel Common Shares to be issued in the Merger and upon exercise of Company Stock Options to be assumed by Nortel by reason of the Merger shall have received conditional approval for listing on the NYSE and the Canadian Stock Exchanges, subject to official notice of issuance.

7.02. Conditions to Obligation of the Company. The obligation of the Company to consummate the Merger is also subject to the fulfillment or written waiver by the Company prior to the Effective Time of each of the following conditions:

(a) Representations and Warranties. All representations and warranties of Nortel set forth in this Agreement (giving effect to the standard set forth in Section 5.02) shall be true and correct as of the date of this Agreement and as of the Effective Date as though made on and as of the Effective Date (except that representations and warranties that by their terms speak as of the date of this Agreement or some other date shall be true and correct as of such date); and the Company shall have received a certificate, dated the Effective Date, signed on behalf of Nortel by the Chief Executive Officer or the Chief Financial Officer of Nortel to such effect.

(b) Performance of Obligations. Nortel shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Effective Time, and the Company shall have received a certificate, dated the Effective Date, signed on behalf of Nortel by the Chief Executive Officer or the Chief Financial Officer of Nortel to such effect.

(c) Opinion of the Company's Counsel. The Company shall have received an opinion of Venture Law Group, A Professional Corporation, counsel to the Company, dated the Effective Date, to the effect that, on the basis of facts, representations and assumptions set forth in such opinion, (a) the Merger constitutes a reorganization within the meaning of Section 368 (a) of the Code, (b) Nortel shall be treated as a corporation under Section 367(a)(1) of the Code with respect to each transfer of property thereto pursuant to the Merger, and (c) that, accordingly, (i) no gain or loss will be recognized by the Company as a result of the Merger and (ii) no gain or loss will be recognized by a stockholder of the Company who receives Nortel Common Shares in exchange for shares of Company Common Stock, except with respect to cash received in lieu of fractional share interests. In rendering its opinion, such counsel may require and rely upon representations contained in letters from the Company, Nortel, Sub and stockholders of the Company. Counsel's opinion shall not address the tax consequences applicable to any stockholder of the Company who, immediately after the Merger, will be a "five percent transferee shareholder" with respect to Nortel within the meaning of U.S. Treasury Regulation Section 1.367(a)-3(c)(5).

(d) No Material Adverse Effect. From the date of this Agreement, no event shall have occurred or circumstance arisen or been discovered that, individually or taken together with all other such events and circumstances, has had or would reasonably be expected to have a Material Adverse Effect on Nortel.

7.03. Conditions to Obligation of Nortel and Sub. The obligations of Nortel and Sub to consummate the Merger are also subject to the fulfillment or written waiver by Nortel and Sub prior to the Effective Time of each of the following conditions:

(a) Representations and Warranties. All representations and warranties of the Company set forth in this Agreement (giving effect to the standard set forth in Section 5.02) shall be true and correct as of the date of this Agreement and as of the Effective Date as though made on and as of the Effective Date (except that representations and warranties that by their terms speak as of the date of this Agreement or some other date shall be true and correct as of such date); and Nortel and Sub shall have received a certificate, dated the Effective Date,

signed on behalf of the Company by the Chief Executive Officer and the Chief Financial Officer of the Company to such effect.

(b) Performance of Obligations of the Company. The Company shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Effective Time, and Nortel and Sub shall have received a certificate, dated the Effective Date, signed on behalf of the Company by the Chief Executive Officer and the Chief Financial Officer of the Company to such effect.

(c) Material Adverse Effect. From the date of this Agreement, no event shall have occurred or circumstance arisen or been discovered that, individually or taken together with all other such events and circumstances has had or would reasonably be expected to have a Material Adverse Effect on the Company.

(d) Opinion of Nortel and Sub's Counsel. Nortel shall have received an opinion of Cleary, Gottlieb, Steen & Hamilton, special counsel to Nortel and Sub dated the Effective Date, to the effect that, on the basis of facts, representations and assumptions set forth in such opinion, (a) the Merger constitutes a reorganization under Section 368(a) of the Code, (b) Nortel shall be treated as a corporation under Section 367(a)(1) of the Code with respect to each transfer of property thereto pursuant to the Merger and (c) that, accordingly, (i) no gain or loss will be recognized by the Company as a result of the Merger and (ii) no gain or loss will be recognized by a stockholder of the Company who receives Nortel Common Shares in exchange for shares of the Company Common Stock, except with respect to cash received in lieu of fractional share interests. In rendering its opinion, such counsel may require and rely upon representations contained in letters from the Company, Nortel, Sub and stockholders of the Company. Counsel's opinion shall not address the tax consequences applicable to any stockholder of the Company who, immediately after the Merger, will be a "five percent transferee shareholder" with respect to Nortel within the meaning of U.S. Treasury Regulation Section 1.367(a)-3(c)(5).

(e) No Action Seeking Injunction. No Governmental Authority of competent jurisdiction shall have brought an action or proceeding seeking to enjoin or prohibit

consummation, or require the unwinding, of the Merger, or to impose substantial penalties as a result of the Merger, which action or proceeding is reasonably likely to succeed.

ARTICLE VIII

TERMINATION

8.01. Termination. This Agreement may be terminated, and the Merger may be abandoned:

(a) Mutual Consent. At any time prior to the Effective Time, by the mutual consent of Nortel and the Company by action taken by their respective Boards of Directors.

(b) Breach. At any time prior to the Effective Time, by Nortel or the Company, in the event of either: (i) a breach by the other party of any representation or warranty contained herein which would result in

the non-satisfaction of the conditions set forth in Sections 7.02(a) and 7.03(a), as the case may be, which breach is not capable of being cured or has not been cured within 15 calendar days after the giving of written notice to the breaching party of such breach; or (ii) a material breach by the other party of any of the covenants or agreements contained herein, which breach is not capable of being cured or has not been cured within 15 calendar days after the giving of written notice to the breaching party of such breach. Without limiting the foregoing, for all purposes of this Agreement, any breach of the agreements contained in Section 6.06 shall constitute a breach which is not capable of being cured.

(c) Delay. At any time prior to the Effective Time, by Nortel or the Company, if its Board of Directors so determines, in the event that the Merger is not consummated by March 31, 2000, or, in the event that an approval of any Governmental Authority required to be obtained for the consummation of the transactions contemplated by this Agreement has not been obtained, June 30, 2000, except to the extent that the failure of the Merger then to be consummated arises out of or results from the knowing action or inaction of the party seeking to terminate pursuant to this Section 8.01(c) which action or inaction is in violation of its obligations under this Agreement.

(d) No Approval.

(i) By the Company or Nortel, by action taken by its Board of Directors, in the event the approval of any Governmental Authority required for consummation of the Merger and the other transactions contemplated by this Agreement shall have been denied by final nonappealable action of such Governmental Authority.

(ii) By Nortel, by action taken by its Board of Directors, in the event any required approval of a Governmental Authority contains any final, nonappealable conditions, restrictions or requirements which would reasonably be expected to (A) following the Effective Time, have a Material Adverse Effect on Nortel and its Subsidiaries taken as a whole or on the Surviving Corporation or (B) require

Nortel to take any action that it is not required to take under Section 6.11(d) hereof.

(iii) By the Company, by action taken by its Board of Directors, in the event any required approval of a Governmental Authority contains any final, nonappealable conditions, restrictions or requirements which would reasonably be expected to (A) following the Effective Time, have a Material Adverse Effect on Nortel and its Subsidiaries taken as a whole or (B) require Nortel to take any action that it is not required to take under Section 6.11(d) hereof, unless (in the case of this clause (B)) within 30 days following receipt by Nortel of written notice of the Company's intent to terminate this Agreement under this clause (iii) Nortel notifies the Company that it waives its right to terminate this Agreement under clause (ii) above.

(iv) By Nortel or the Company, if its Board of Directors so determines, in the event the approval of the Company's

stockholders required by Section 7.01(a) herein is not obtained at the Company Meeting by reason of the failure to obtain the requisite vote required by Section 7.01(a).

(e) Board Action.

(i) By Nortel if the Board of Directors of the Company, prior to the Company Meeting (A) shall withdraw or modify in any adverse manner its recommendation of the "agreement of merger" (as such term is used in Section 251 of the DGCL) contained in this Agreement (whether or not such withdrawal or modification is permitted by Section 6.06(c)), or (B) shall resolve to do so.

(ii) By the Company if the Board of Directors of the Company, within 45 days from the date hereof, shall elect to terminate this Agreement in order to recommend or approve a Superior Proposal; provided that (x) the Company has notified Nortel in writing that it intends to recommend or approve a Superior Proposal, attaching the most current version of such proposal to such notice, and (y) at any time after the third Business Day following written notification by the Company to Nortel of the Company's intention to enter into a binding agreement with respect to such proposal, after taking into account any modifications to the transactions contemplated by the Agreement that Nortel has then proposed in writing and not withdrawn, the Company Board has determined that such proposal is and continues to be a Superior Proposal, and (z) concurrently with the giving of notice of such termination, pays to Nortel the Termination Fee due under Section 8.02(b) (unless Nortel has previously notified the Company of its election to defer such payment pursuant to Section 8.02(c)).

8.02. Effect of Termination and Abandonment. (a) In the event of termination of this Agreement and the abandonment of the Merger pursuant to this Article VIII, no party to this Agreement (nor any of their respective officers, directors or agents) shall have any liability or further obligation to any other party hereunder except as set forth in subsections (b) and (c)

below and in Section 9.01, and except that termination shall not relieve a party from liability for any willful breach of this Agreement.

(b) Nortel and the Company agree that the Company shall pay to Nortel the sum of $60,000,000 (the "Termination Fee") solely as follows:

(i) if (x) the Company shall terminate this Agreement pursuant to Section 8.01(c) due to the failure of the parties to consummate the Merger by the relevant date (unless such failure results primarily from the action or inaction of Nortel or from Nortel's or Sub's inability to obtain consent or approval of, or make any filing or registration with, any Governmental Authority) and (y) at any time after the date of this Agreement and at or before such termination there shall exist an Acquisition Proposal and (z) within 12 months of the termination of this Agreement, the Company enters into a definitive agreement with any third party with respect to an Acquisition Proposal or an Acquisition Proposal is consummated;

(ii) if (x) the Company or Nortel shall terminate this Agreement pursuant to Section 8.01(d)(iv) due to the failure of the Company's

stockholders to approve and adopt this Agreement and (y) at any time after the date of this Agreement and at or before the Company Meeting there shall exist an Acquisition Proposal which has been publicly announced or the existence of which is a matter of public knowledge and (z) within 12 months of the termination of this Agreement, the Company enters into a definitive agreement with any third party with respect to an Acquisition Proposal or an Acquisition Proposal is consummated;

(iii) if Nortel shall terminate this Agreement pursuant to Section 8.01(b)(i) or Section 8.01(b)(ii) following a willful breach of any of the representations, covenants or agreements contained herein and (y) at any time after the date of this Agreement and at or before such termination there shall exist an Acquisition Proposal and (z) within 12 months of the termination of this Agreement, the Company enters into a definitive agreement with any third party with respect to an Acquisition Proposal or an Acquisition Proposal is consummated;

(iv) if Nortel shall terminate this Agreement pursuant to Section 8.01(e)(i); or

(v) if the Company shall terminate this Agreement pursuant to Section 8.01(e)(ii).

(c) The Termination Fee required to be paid pursuant to subsection (b)(i), (b)(ii) or (b)(iii) above shall be payable by the Company to Nortel not later than two Business Days after the date the Company enters into a definitive agreement with respect to, or the date of consummation of, an Acquisition Proposal, whichever is earlier. The Termination Fee required to be paid pursuant to subsection (b)(iv) above shall be payable by the Company to Nortel not later than two Business Days after the termination referred to therein. The Termination Fee required to be paid pursuant to subsection (b)(v) shall be payable as set forth in clause (z) of Section 8.01(e)(ii). Notwithstanding the foregoing, (i) in no event shall more than one Termination Fee be payable, (ii) Nortel may elect, by notice to the Company, to defer the payment of the Termination Fee from time to time for a period or periods of up to an aggregate

of twelve months after the date such fee would otherwise be payable and (iii) the Termination Fee shall cease to be payable immediately following any exercise by Nortel of the Option under the Option Agreement. All payments under this Section 8.02 shall be made by wire transfer of immediately available funds to an account designated by Nortel.

ARTICLE IX

MISCELLANEOUS

9.01. Survival. All representations, warranties, agreements and covenants contained in this Agreement shall not survive the Effective Time or termination of this Agreement if this Agreement is terminated prior to the Effective Time; provided, however, if the Effective Time occurs, the agreements of the parties in Sections 6.01, 6.03, 6.10, 6.12, 6.13 and 6.16 and this Article IX shall survive the Effective Time, and if this Agreement is terminated prior to the Effective Time, the agreements of the parties in the proviso to Section 6.05(a), Sections 6.05(b) and 8.02 and Article IX and in the Confidentiality Agreement shall survive such termination and the Option Agreement shall survive to the extent provided therein.

9.02. Amendment; Extension; Waiver. (a) Subject to compliance with

applicable law, this Agreement may be amended by the parties hereto, by action taken or authorized by their respective Boards of Directors, at any time before or after approval of the matters presented in connection with the Merger by the stockholders of the Company; provided, however, that after any approval of the transactions contemplated by this Agreement by the stockholders of the Company, there may not be, without further approval of such stockholders, any amendment of this Agreement which by law requires further approval by such stockholders without such further approval. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

(b) Prior to the Effective Time, the parties hereto, by action taken or authorized by their respective Boards of Directors, may, to the extent legally allowed, (i) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (ii) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto and (iii) waive compliance with any of the agreements or conditions contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in a written instrument signed on behalf of such party, but such extension or waiver or failure to insist on strict compliance with an obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.

9.03. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to constitute an original.

9.04. Governing Law. This Agreement shall be governed by, and interpreted in accordance with, the laws of the State of New York (except insofar as mandatory provisions of Delaware law are applicable), without regard to the conflict of law principles thereof.

9.05. Expenses. Subject to Section 8.02(b), each party hereto will bear all expenses incurred by it in connection with this Agreement and the transactions contemplated

hereby, except that printing and mailing expenses and SEC registration and filing fees shall be shared equally between the Company and Nortel.

9.06. Notices. All notices, requests and other communications hereunder to a party shall be in writing and shall be deemed given if personally delivered, telecopied (with confirmation) or three Business Days after being mailed by registered or certified mail (return receipt requested) or one Business Day after being delivered by overnight courier to such party at its address set forth below or such other address as such party may specify by notice to the parties hereto.

If to Nortel or to Sub, to:

Nortel Networks Corporation
8200 Dixie Road, Suite 100
Brampton, Ontario
Canada L6T 5P6
Attention: Corporate Secretary
Fax: (905) 863-8386
Phone: (905) 863-0000

With a copy to:

Cleary, Gottlieb, Steen & Hamilton
One Liberty Plaza
New York, New York 10006
Attention: Victor I. Lewkow, Esq.
Fax: (212) 225-3999
Phone: (212) 225-2000

If to the Company, to:

Clarify Inc.
2560 Orchard Parkway
San Jose, California 95131
Attention: Anthony Zingale
Fax: (408) 965-4610
Phone: (408) 573-3000

With a copy to:

Venture Law Group
2800 Sand Hill Road
Menlo Park, CA 94025
Attention: Elias J. Blawie, Esq.
Fax: (650) 233-8386
Phone: (650) 854-4488

9.07. Entire Understanding. This Agreement (including the Disclosure Schedules), the Option Agreement and the Confidentiality Agreement represent the entire understanding of the parties hereto with reference to the transactions contemplated hereby and thereby and this Agreement supersedes any and all other oral or written agreements (other than the Option Agreement and the Confidentiality Agreement) heretofore made.

9.08. Assignment; No Third Party Beneficiaries. Neither this Agreement, nor any of the rights, interests or obligations shall be assigned by any of the parties hereto (whether by operation of law or otherwise) without the prior written consent of the other parties. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns. Except for Section 6.12, nothing in this Agreement expressed or implied, is intended to confer upon any person, other than the parties hereto or their respective successors, any rights, remedies, obligations or liabilities under or by reason of this Agreement.

9.09. Interpretation. When a reference is made in this Agreement to Sections, Exhibits or Disclosure Schedules, such reference shall be to a Section of, or Exhibit or Disclosure Schedule to, this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and are not part of this Agreement. Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation". Any reference to "herein" or "hereof" or similar terms shall refer to the agreement as a whole rather than to the individual paragraph, section or article.

9.10. Severability. Any term or provision of this Agreement which is

invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, the provision shall be interpreted to be only so broad as it is enforceable.

* * *

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in counterparts by their duly authorized officers, all as of the day and year first above written.

NORTEL NETWORKS CORPORATION

By: /s/

Name:
Title:

By: /s/

Name:
Title:

NORTHERN CROWN SUBSIDIARY, INC.

By: /s/

Name:
Title: President

CLARIFY INC.

By: /s/

Name:
Title:

Exhibit A

FORM OF AFFILIATE LETTER

Nortel Networks Corporation
8200 Dixie Road, Suite 100
Brampton, Ontario, Canada
L6T 5P6

Ladies and Gentlemen:

I have been advised that as of the date of this letter I may be

deemed to be an "affiliate" of Clarify Inc., a Delaware corporation (the "Company"), as the term "affiliate" is defined for purposes of paragraphs (c) and (d) of Rule 145 of the rules and regulations (the "Rules and Regulations") of the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Act"). Pursuant to the terms of the Agreement and Plan of Merger dated as of October 18, 1999 (the "Agreement"), by and between Nortel Networks Corporation, a Canadian corporation ("Nortel"), Northern Crown Subsidiary, Inc., a Delaware corporation and a wholly owned subsidiary of Nortel ("Sub"), and the Company, Sub will merge with and into the Company (the "Merger").

As a result of the Merger, I may receive common shares, without par value, of Nortel (the "Nortel Common Shares") in exchange for shares owned by me of common stock, par value $0.0001 per share, of the Company.

I represent, warrant and covenant to Nortel that in the event I receive any Nortel Common Shares as a result of the Merger:

A. I shall not make any sale, transfer or other disposition of Nortel Common Shares in violation of the Act or the Rules and Regulations.

B. I have carefully read this letter and the Agreement and discussed the requirements of such documents and other applicable limitations upon my ability to sell, transfer or otherwise dispose of the Nortel Common Shares, to the extent I felt necessary, with my counsel or counsel for Nortel.

C. I have been advised that the issuance of Nortel Common Shares to me pursuant to the Merger has been registered with the Commission under the Act on a Registration Statement on Form S-4. However, I have also been advised that, since at the time the Merger was submitted for a vote of the stockholders of the Company, I may be deemed to have been an affiliate of the Company and the distribution by me of the Nortel Common Shares has not been registered under the Act, I may not sell, transfer or otherwise dispose of the Nortel Common Shares issued to me in the Merger unless (i) such sale, transfer or other disposition has been registered under the Act, (ii) such sale, transfer or other disposition is made in conformity with Rule 145 promulgated by the Commission under the Act or (iii) in the opinion of counsel reasonably acceptable to Nortel, or pursuant to a "no action" letter obtained by the undersigned

from the staff of the Commission, such sale, transfer or other disposition is otherwise exempt from registration under the Act.

D. I understand that, except as may be provided in any registration rights agreement entered into by Nortel and the undersigned, Nortel is under no obligation to register the sale, transfer or other disposition of the Nortel Common Shares by me or on my behalf under the Act or to take any other action necessary in order to make compliance with an exemption from such registration available.

Execution of this letter should not be considered an admission on my part that I am an "affiliate" of the Company as described in the first paragraph of this letter or as a waiver of any rights I may have to object to any claim that I am such an affiliate on or after the date of this letter.

Very truly yours,

Agreed to and Accepted this
____ day of _____, 1999

NORTEL NETWORKS CORPORATION

By:

Name:
Title:

By:

Name:
Title:

EXECUTION VERSION
EXHIBIT 99.1

STOCK OPTION AGREEMENT

STOCK OPTION AGREEMENT, dated as of October 18, 1999 (the "Agreement"), between NORTEL NETWORKS CORPORATION, a Canadian corporation ("Grantee"), and CLARIFY Inc., a Delaware corporation ("Issuer").

W I T N E S S E T H:

WHEREAS, concurrently herewith, Grantee and Issuer are entering into an Agreement and Plan of Merger (the "Merger Agreement");

WHEREAS, as a condition and inducement to Grantee's execution of the Merger Agreement and in furtherance of the transactions contemplated thereby and in consideration therefor, Issuer has agreed to grant Grantee the Option (as hereinafter defined); and

WHEREAS, the Board of Directors of Issuer has approved the grant of the Option and the Merger Agreement prior to the execution hereof;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements set forth herein and in the Merger Agreement, the parties hereto agree as follows:

1. The Option. (a) Issuer hereby grants to Grantee an unconditional, irrevocable option (the "Option") to purchase, subject to the terms hereof, up to an aggregate of 4,707,333 fully paid and nonassessable shares of the common stock, $0.0001 par value per share, of Issuer ("Common Stock") at a price per share equal to 1.3 times the closing price per share of the Grantee's common shares as reported on the date hereof on the Consolidated Tape for New York Stock Exchange issues (such price, as adjusted if applicable, the "Option Price"); provided, however, that in no event shall the number of shares for which this Option is exercisable exceed 19.9% of the issued and outstanding shares of Common Stock at the time of exercise without giving effect to the shares of Common Stock issued or issuable under the Option. The number of shares of Common Stock that may be received upon the exercise of the Option and the Option Price are subject to adjustment as herein set forth.

(b) In the event that any additional shares of Common Stock are issued or otherwise become outstanding after the date of this Agreement (other than pursuant to this Agreement and other than pursuant to an event described in Section 5(a) hereof), the number of shares of Common Stock subject to the Option shall be increased so that, after such issuance, such number together with any shares of Common Stock previously issued pursuant hereto, equals 19.9% of the number of shares of Common Stock then issued and outstanding without giving effect to any shares subject or issued pursuant to the Option. Nothing contained

in this Section 1(b) or elsewhere in this Agreement shall be deemed to authorize Issuer to breach any provision of the Merger Agreement.

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2. Exercise; Closing. (a) Grantee and/or any other person that shall become a holder of all or part of the Option in accordance with the terms of this Agreement (each such person being referred to herein as the "Holder") may exercise the Option, in whole or part, if, but only if, both an Initial Triggering Event (as defined below) and a Subsequent Triggering Event (as defined below) shall have occurred prior to the occurrence of an Exercise Termination Event (as defined below), provided that the Holder shall have sent written notice of such exercise (as provided in subsection (f) of this Section 2) within 180 days following such Subsequent Triggering Event (or such later period as provided in Section 10).

(b) Each of the following shall be an "Exercise Termination Event":

(i) the Effective Time (as defined in the Merger Agreement);

(ii) termination of the Merger Agreement in accordance with the provisions of Section 8.01(a), 8.01(d)(i), 8.01(d)(ii) or 8.01(d)(iii) of the Merger Agreement, or termination of the Merger Agreement by the Issuer in accordance with the provisions of Section 8.01(b) thereof, or termination of the Merger Agreement by the Grantee in accordance with the provisions of Section 8.01(b) thereof by reason solely of non-willful breaches of representations warranties or covenants by the Issuer, or termination of the Merger Agreement by the Grantee in accordance with the provisions of Section 8.01(c);

(iii) termination of the Merger Agreement by the Issuer in accordance with the provisions of Section 8.01(c), or termination of the Merger Agreement pursuant to Section 8.01(d)(iv) thereof, or termination of the Merger Agreement by the Grantee in accordance with the provisions of Section 8.01(b) thereof under circumstances where clause (ii) above is inapplicable, in each case only if such termination occurs prior to the occurrence of an Initial Triggering Event;

(iv) the passage of 12 months (or such later period as provided in Section 10) after termination of the Merger Agreement other than as set forth in clauses (ii) and (iii) above; or

(v) the receipt by Grantee (pursuant to its request) of the Termination Fee.

(c) The term "Initial Triggering Event" shall mean any of the following

events or transactions occurring after the date hereof:

(i) Issuer or any of its Subsidiaries (as defined in Rule 1-02 of Regulation S-X promulgated by the Securities and Exchange Commission (the "SEC")) (each an "Issuer Subsidiary"), without having received Grantee's prior written consent, shall have entered into an agreement to engage in an Acquisition Transaction (as defined below) with any person (the term

"person" for purposes of this Agreement having the meaning assigned thereto in Sections 3(a)(9) and 13(d)(3) of the Exchange Act) other than Grantee or any of its Subsidiaries (each a "Grantee Subsidiary") or the Board of Directors of Issuer shall have recommended that the stockholders of Issuer approve or accept any Acquisition Transaction (other than the Merger referred to in the Merger Agreement). For purposes of this Agreement, "Acquisition Transaction" shall mean (w) a merger or consolidation, or any similar transaction, involving Issuer or a Significant Subsidiary (as defined in Rule 1-02 of Regulation S-X promulgated by the SEC) of Issuer, (x) a purchase, lease or other acquisition or assumption of all or more than 20% of the consolidated assets of Issuer (including by way of merger, consolidation, share exchange or otherwise involving any Subsidiary of Issuer), (y) a purchase or other acquisition (including by way of merger, consolidation, share exchange or otherwise) of beneficial ownership (the term "beneficial ownership" for purposes of this Agreement having the meaning assigned thereto in Section 13(d) of the Exchange Act, and the rules and regulations thereunder) of securities representing 20% or more of the voting power of Issuer or more than 20% of any Significant Subsidiary of Issuer, or (z) any substantially similar transaction; provided, however, that in no event shall any merger, consolidation, purchase or similar transaction involving only the Issuer and one or more of its wholly-owned Subsidiaries or involving only any two or more of such wholly-owned Subsidiaries, be deemed to be an Acquisition Transaction, if such transaction is not entered into in violation of the terms of the Merger Agreement;

(ii) Issuer or any Issuer Subsidiary, without having received Grantee's prior written consent, shall have authorized, recommended, proposed or publicly announced its intention to authorize, recommend or propose, to engage in an Acquisition

Transaction with any person other than Grantee or a Grantee Subsidiary or shall have authorized or engaged in, or announced its intention to authorize or engage in, any negotiations regarding an Acquisition Transaction with any person other than the Grantee or a Grantee Subsidiary, or the Board of Directors of Issuer shall have failed to recommend or shall have publicly withdrawn or modified, or publicly announced its intention to withdraw or modify, in any manner adverse to Grantee, its recommendation that the stockholders of Issuer approve the Merger;

(iii) The shareholders of Issuer shall have voted and failed to approve the Merger at a meeting which has been held for that purpose or any adjournment or postponement thereof, or such meeting shall not have been held in violation of the Merger Agreement or shall have been canceled prior to termination of the Merger Agreement if, prior to such meeting (or if such meeting shall not have been held or shall have been canceled, prior to such termination), any person (other than the Grantee or a Grantee Subsidiary) shall have made a

proposal to Issuer or its stockholders by public announcement or written communication that is or becomes the subject of public disclosure to engage in an Acquisition Transaction;

(iv) (a) Any person other than Grantee or any Grantee Subsidiary shall have acquired beneficial ownership or the right to acquire beneficial ownership of 20% or more of the then outstanding shares of Common Stock or (b) any group (the term "group" having the meaning assigned in Section 13(d)(3) of the Exchange Act), other than a group of which the Grantee or any Grantee Subsidiary is a member, shall have been formed that beneficially owns 20% or more of the then outstanding shares of Common Stock;

(v) Any person other than Grantee or any Grantee Subsidiary shall have made a bona fide proposal to Issuer or its stockholders to engage in an Acquisition Transaction and such proposal shall have become publicly known, or shall have commenced, or publicly announced its intention to commence, a tender or exchange offer to acquire beneficial ownership of 20% or more of the then outstanding shares of Common Stock;

(vi) Issuer shall have willfully breached any representation, warranty, covenant or obligation contained in the Merger

Agreement and such breach (x) would entitle Grantee to terminate the Merger Agreement and (y) shall not have been cured prior to the Notice Date (as defined below); or

(vii) Any person other than Grantee or any Grantee Subsidiary, other than in connection with a transaction to which Grantee has given its prior written consent, shall have filed with any federal or state regulatory or governmental authority an application for approval or notice of intention to engage in an Acquisition Transaction.

(d) The term "Subsequent Triggering Event" shall mean either of the following events or transactions occurring after the date hereof:

(i) The acquisition by any person or by a group other than Grantee or any Grantee Subsidiary of beneficial ownership of 25% or more of the then outstanding Common Stock; or

(ii) The occurrence of the Initial Triggering Event described in paragraph (i) of subsection (c) of this Section 2, except that the references to 20% in clause (x) and clause (y) shall each be deemed to be a reference to 25%.

(e) Issuer shall notify Grantee promptly in writing of the occurrence of any Initial Triggering Event or Subsequent Triggering Event (together, a "Triggering Event"), it being understood that the giving of such notice by Issuer shall not be a condition to the right of the Holder to exercise the Option.

(f) In the event the Holder is entitled to and wishes to exercise the Option (or any portion thereof), it shall send to Issuer a written notice (the date of which being herein referred to as the "Notice Date") specifying (i) the total number of shares it will purchase pursuant to such exercise and (ii) a place and date not earlier than three business days nor later than 60 business days from the Notice Date for the closing of such purchase (the "Closing Date"); provided, that if the closing of such purchase cannot be consummated by reason of any applicable judgment, injunction, decree, order, law or regulation, the period of time that would otherwise run pursuant to this sentence shall run instead from the date on which such restriction on consummation has expired or been terminated; and provided, further, that if prior notification to or approval of any regulatory or antitrust agency is required in connection with such purchase, the Holder shall promptly file the required notice or application for approval, shall promptly notify Issuer of such filing and shall expeditiously process the same and the period of time that otherwise would run pursuant to this sentence shall run instead from the date on which any required notification periods have expired or been terminated or such approvals have been obtained and any requisite waiting period or periods shall have passed. Any

exercise of the Option shall be deemed to occur on the Notice Date relating thereto.

(g) At the closing referred to in subsection (f) of this Section 2, the Holder shall (i) pay to Issuer the aggregate purchase price for the shares of Common Stock purchased pursuant to the exercise of the Option in immediately available funds by wire transfer to a bank account designated by Issuer, provided that failure or refusal of Issuer to designate such a bank account shall not preclude the Holder from exercising the Option by delivery of a certified check or bank draft, and (ii) present and surrender this Agreement to Issuer for cancellation in whole or (in the case of a partial exercise) in part.

(h) At such closing, simultaneously with the delivery of immediately available funds as provided in subsection (g) of this Section 2, Issuer shall deliver to the Holder a certificate or certificates representing the number of shares of Common Stock purchased by the Holder and, if the Option should be exercised in part only, a new Option evidencing the rights of the Holder thereof to purchase the balance of the shares purchasable hereunder.

(i) Certificates for Common Stock delivered at a closing hereunder may be endorsed with a restrictive legend that shall read substantially as follows:

> "The transfer of the shares represented by this certificate is subject to certain provisions of an agreement between the registered holder hereof and Issuer and to resale restrictions arising under applicable securities laws (including the Securities Act of 1933, as amended). A copy of such agreement is on file at the principal office of Issuer and will be provided to the holder hereof without charge upon receipt by Issuer of a written request therefor."

It is understood and agreed that: (i) the reference to the resale restrictions arising under applicable securities laws, including the Securities Act of 1933, as amended (the "Securities Act"), in the above legend shall be removed by delivery of substitute certificate(s) without such

reference if the Holder shall have delivered to Issuer a copy of a letter from the staff of the SEC, or an opinion of counsel, in form and substance reasonably satisfactory to Issuer, to the effect that such legend is not required for purposes of the Securities Act or other applicable securities laws; (ii) the reference to the provisions of this Agreement in the above legend shall be removed by delivery of substitute certificate(s) without such reference if the shares have been sold or transferred in compliance with the provisions of this Agreement and under circumstances that do not require the retention of such reference in the opinion of counsel to the Holder, in form and substance reasonably satisfactory to Issuer; and (iii) the legend shall be removed in its entirety if the conditions in the preceding clauses (i) and (ii) are both

satisfied. In addition, such certificates shall bear any other legend as may be required by law.

The Holder understands and agrees that the Option is being issued to the Holder pursuant to the registration and prospectus exceptions in paragraph 35(1) and clause 72(1)(b) of the Securities Act (Ontario) (the "Ontario Act") and that the resale of the Option or Common Stock issued upon exercise of the Option is restricted by the provisions of the Ontario Act and other applicable Canadian securities legislation.

(j) Upon the giving by the Holder to Issuer of the written notice of exercise of the Option provided for under subsection (f) of this Section 2 and the tender of the applicable purchase price in immediately available funds, the Holder shall be deemed to be the holder of record of the shares of Common Stock issuable upon such exercise, notwithstanding that the stock transfer books of Issuer shall then be closed or that certificates representing such shares of Common Stock shall not then be actually delivered to the Holder. Issuer shall pay all expenses, and any and all United States federal, state and local taxes and other charges that may be payable in connection with the preparation, issue and delivery of stock certificates under this Section 2 in the name of the Holder or its assignee, transferee or designee.

3. Covenants of Issuer. In addition to its other agreements and covenants herein, Issuer agrees:

(a) that it shall at all times maintain, free from any subscriptive or preemptive rights, sufficient authorized but unissued or treasury shares of Common Stock so that the Option may be exercised without additional authorization of Common Stock after giving effect to all other options, warrants, convertible securities and other rights of third parties to purchase Common Stock from Issuer or to cause Issuer to issue shares of Common Stock;

(b) that it will not, by charter amendment or through reorganization, consolidation, merger, dissolution or sale of assets, or by any other voluntary act, avoid or seek to avoid the observance or performance of any of the covenants, stipulations or conditions to be observed or performed hereunder by Issuer; and

(c) promptly to take all action (i) as may from time to time be required (including complying with all applicable notification, filing, reporting and waiting period requirements under HSR or otherwise, and cooperating fully with the Holder in preparing any applications or notices and providing such information to any regulatory authority as it may require) in order to

permit the Holder to exercise the Option and Issuer duly and effectively to issue shares of Common Stock pursuant hereto, and (ii) as may from time to time be required to protect the rights of the Holder against dilution

4. Exchange; Replacement. This Agreement (and the Option granted hereby) are exchangeable, without expense, at the option of the Holder, upon presentation and surrender of this Agreement at the principal office of Issuer, for other Agreements providing for Options of different denominations entitling the holder thereof to purchase, on the same terms and subject to the same conditions as are set forth herein, in the aggregate the same number of shares of Common Stock purchasable hereunder. The terms "Agreement" and "Option" as used herein include any Agreements and related Options for which this Agreement (and the Option granted hereby) may be exchanged. Upon receipt by Issuer of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Agreement, and (in the case of loss, theft or destruction) of reasonably satisfactory indemnification, and upon surrender and cancellation of this Agreement, if mutilated, Issuer will execute and deliver a new Agreement of like tenor and date. Any such new Agreement executed and delivered shall constitute an additional contractual obligation on the part of Issuer, whether or not the Agreement so lost, stolen, destroyed or mutilated shall at any time be enforceable by any person other than the holder of the new Agreement.

5. Adjustments. In addition to the adjustment in the number of shares of Common Stock that are purchasable upon exercise of the Option pursuant to Section 1 hereof, the number of shares of Common Stock purchasable upon the exercise of the Option and the Option Price shall be subject to adjustment from time to time as provided in this Section 5.

(a) In the event of any change in, or distributions in respect of, the Common Stock by reason of stock dividends, split-ups, mergers, recapitalizations, combinations, subdivisions, conversions, exchanges of shares or the like, the type and number of shares of Common Stock purchasable upon exercise hereof shall be appropriately adjusted and proper provision shall be made so that, in the event that any additional shares of Common Stock are to be issued or otherwise become outstanding as a result of any such change (other than pursuant to an exercise of the Option), the number of shares of Common Stock that remain subject to the Option shall be increased so that, after such issuance and together with shares of Common Stock previously issued pursuant to the exercise of the Option (as adjusted on account of any of the foregoing changes in the Common Stock), it equals 19.9% of the number of shares of Common Stock then issued and outstanding.

(b) Whenever the number of shares of Common Stock purchasable upon exercise hereof is adjusted as provided in this Section 5, the Option Price shall be adjusted by multiplying the Option Price by a fraction, the numerator of which shall be equal to the number of shares of Common Stock purchasable prior to the adjustment and the denominator of which shall be equal to the number of shares of Common Stock purchasable after the adjustment.

6. Registration. (a) Upon the occurrence of any Subsequent Triggering Event that occurs prior to an Exercise Termination Event, Issuer shall, subject to Section 6(d) hereof, at the

request of Grantee delivered within twelve (12) months (or such later period as provided in Section 10 hereof) of such Subsequent Triggering Event (whether on its own behalf or on behalf of any subsequent holder of this Option (or part thereof) or any of the shares of Common Stock issued pursuant hereto), promptly prepare, file and keep current a shelf registration statement under the Securities Act covering any shares issued and issuable pursuant to this Option and shall use its reasonable best efforts to cause such registration statement to become effective and remain current in order to permit the sale or other disposition of any shares of Common Stock issued upon total or partial exercise of this Option ("Option Shares") in accordance with any plan of disposition requested by Grantee. Issuer will use its reasonable best efforts to cause such registration statement promptly to become effective and then to remain effective for a period not in excess of 180 days from the day such registration statement first becomes effective or such shorter time as may be reasonably necessary, in the judgment of the Grantee or the Holder, to effect such sales or other dispositions. Grantee shall have the right to demand two such registrations. The Issuer shall bear the costs of such registrations (including, but not limited to, Issuer's attorneys' fees, printing costs and filing fees, except for underwriting discounts or commissions, brokers' fees and the fees and disbursements of Grantee's counsel related thereto). The foregoing notwithstanding, if, at the time of any request by Grantee for registration of the Option Shares as provided above, Issuer is in registration with respect to an underwritten public offering by Issuer of shares of Common Stock, and if in the good faith judgment of the managing underwriter or managing underwriters, or, if none, the sole underwriter or underwriters, of such offering the inclusion of the Option Shares would interfere with the successful marketing of the shares of Common Stock offered by Issuer, the number of Option Shares otherwise to be covered in the registration statement contemplated hereby may be reduced to the extent necessary to eliminate such condition; provided, however, that after any such required reduction the number of Option Shares to be included in such offering for the account of the Holder shall constitute at least 25% of the total number of shares to be sold by the Holder and Issuer in the aggregate; and provided further, however, that if such reduction occurs, then Issuer shall file a registration statement for the balance as promptly as practicable thereafter as to which no reduction pursuant to this Section 6 shall be permitted or occur and the Holder shall be deemed not to have made an additional registration demand and the twelve (12) month period referred to in the first sentence of this section shall be increased to twenty-four (24) months. Each such Holder shall provide all information reasonably requested by Issuer for inclusion in any registration statement to be filed hereunder. If requested by any such Holder in connection with such registration, Issuer shall become a party to any underwriting agreement relating to the sale of such shares, but only to the extent of obligating itself in respect of representations, warranties, indemnities and other agreements customarily included in such underwriting agreements for Issuer. Upon receiving any request under this Section 6 from any Holder, Issuer agrees to send a copy thereof to any other person known to Issuer to be entitled to registration rights under this Section 6, in each case by promptly mailing the same, postage prepaid, to the address of record of the persons entitled to receive such copies.

Notwithstanding anything to the contrary contained herein, in no event shall the number of registrations that Issuer is obligated to effect be increased by reason of the fact that there shall be more than one Holder as a result of any assignment or division of this Agreement.

(b) In the event that Grantee so requests, the closing of the sale or other disposition of the Common Stock or other securities pursuant to a registration statement filed pursuant to Section 6(a) hereof shall occur substantially simultaneously with the exercise of the Option.

(c) If the Common Stock or the class of any other securities to be acquired upon exercise of the Option are then listed on the Nasdaq National Market of The Nasdaq Stock Market, Inc. ("Nasdaq") or any national securities exchange, Issuer, upon the request of the Holder, shall promptly file an application to list the Common Stock or other securities to be acquired upon exercise of the Option on Nasdaq or such exchange and will use its reasonable best efforts to obtain approval of such listing as soon as practicable.

(d) Issuer may delay any registration of the Option Shares required pursuant to Section 6(a) hereof for a period not in excess of 90 days if, in the reasonable good faith judgment of Issuer, such registration would materially and adversely affect a proposed merger, consolidation or similar transaction (including through the premature disclosure thereof) or offering or contemplated offering of other securities by Issuer.

7. Repurchase of Option and/or Option Shares. (a) At any time commencing upon the occurrence of a Repurchase Event (as defined in Section 7(d) hereof) and ending twelve (12) months thereafter, (i) at the request of the Holder, delivered in writing prior to an Exercise Termination Event (or such later period as provided in Section 10), Issuer (or any successor thereto) shall repurchase the Option from the Holder at a price (the "Option Repurchase Price") equal to the amount by which (A) the market/offer price (as defined below) exceeds (B) the Option Price, multiplied by the number of shares for which this Option may then be exercised, and (ii) at the request of the owner of Option Shares from time to time (the "Owner"), delivered in writing prior to an Exercise Termination Event (or such later period as provided in Section 10), Issuer (or any successor thereto) shall repurchase such number of the Option Shares from the Owner as the Owner shall designate at a price (the "Option Share Repurchase Price") equal to the market/offer price multiplied by the number of Option Shares so designated. The term "market/offer price" shall mean the highest of (i) the price per share of Common Stock at which a tender or exchange offer therefor has been made and has been consummated or remains outstanding, (ii) the price per share of Common Stock to be paid by any third party pursuant to an agreement with Issuer after the date hereof, (iii) the highest average closing price for shares of Common Stock for any 20 trading day period within the three-month period immediately preceding the date the Holder gives notice of the required repurchase of this Option or the Owner gives notice of the required

repurchase of Option Shares, as the case may be, or (iv) in the event of a sale of all or substantially all of the consolidated assets of Issuer, the sum of the net price paid in such sale for such assets and the current market value of the remaining net assets of Issuer as determined by a nationally recognized investment banking firm selected by the Holder or the Owner, as the case may be, and reasonably acceptable to Issuer, divided by the number of shares of Common Stock outstanding at the time of such sale, which determination, absent manifest error, shall be conclusive for all purposes of this Agreement. In determining the market/offer price, the value of consideration other than cash shall be determined by a nationally recognized investment banking firm selected by the Holder or Owner, as the case may be, and reasonably acceptable to

Issuer, which determination, absent manifest error, shall be conclusive for all purposes of this Agreement.

(b) The Holder and the Owner, as the case may be, may exercise its right to require Issuer to repurchase the Option and any Option Shares pursuant to this Section 7 by surrendering for such purpose to Issuer, at its principal office, a copy of this Agreement or certificates for Option Shares, as applicable, accompanied by a written notice or notices stating that the Holder or the Owner, as the case may be, elects to require Issuer to repurchase this Option and/or the Option Shares in accordance with the provisions of this Section 7. Prior to the later of (x) the date that is five business days after the surrender of the Option and/or certificates representing Option Shares and the receipt of such notice or notices relating thereto and (y) the day on which a Repurchase Event occurs, Issuer shall deliver or cause to be delivered to the Holder the Option Repurchase Price and/or to the Owner the Option Share Repurchase Price or the portion thereof that Issuer is not then prohibited under applicable law and regulation from so delivering.

(c) To the extent that Issuer is prohibited under applicable law or regulation from repurchasing the Option and/or the Option Shares in full, Issuer shall promptly so notify the Holder and/or the Owner and thereafter deliver or cause to be delivered, from time to time, to the Holder and/or the Owner, as appropriate, the portion of the Option Repurchase Price and the Option Share Repurchase Price, respectively, that it is no longer prohibited from delivering, within five business days after the date on which Issuer is no longer so prohibited; provided, however, that if Issuer at any time after delivery of a notice of repurchase pursuant to paragraph (b) of this Section 7 is prohibited under applicable law or regulation from delivering to the Holder and/or the Owner, as appropriate, the Option Repurchase Price and the Option Share Repurchase Price, respectively, in full (and Issuer hereby undertakes to use its reasonable best efforts to obtain all required regulatory and legal approvals and to file any required notices as promptly as practicable in order to accomplish such repurchase), the Holder or Owner may revoke its notice of repurchase of the Option and/or the Option Shares whether in whole or to the extent of the prohibition, whereupon, in the latter case, Issuer shall promptly

(i) deliver to the Holder and/or the Owner, as appropriate, that portion of the Option Repurchase Price and/or the Option Share Repurchase Price that Issuer is not prohibited from delivering; and (ii) deliver, as appropriate, either (A) to the Holder, a new Agreement evidencing the right of the Holder to purchase that number of shares of Common Stock obtained by multiplying the number of shares of Common Stock for which the surrendered Agreement was exercisable at the time of delivery of the notice of repurchase by a fraction, the numerator of which is the Option Repurchase Price less the portion thereof theretofore delivered to the Holder and the denominator of which is the Option Repurchase Price, and/or (B) to the Owner, a certificate for the Option Shares it is then so prohibited from repurchasing. If an Exercise Termination Event shall have occurred less than 30 days prior to the date of the notice by Issuer described in the first sentence of this subsection (c), or shall be scheduled to occur at any time before the expiration of a period ending on the thirtieth day after such date, the Holder shall nonetheless have the right to exercise the Option until the expiration of such 30-day period after the date of the Exercise Termination Event or the notice date, respectively.

(d) For purposes of this Section 7, a Repurchase Event shall be deemed to have occurred (i) upon the consummation of any merger, consolidation or similar transaction involving Issuer or any purchase, lease or other acquisition of all or substantially all of the assets of Issuer on a consolidated basis, other than any such transaction which would not constitute an Acquisition Transaction pursuant to the proviso to Section 2(c)(i) hereof or (ii) upon the acquisition by any person of beneficial ownership of 50% or more of the then outstanding shares of Common Stock; provided that no such event shall constitute a Repurchase Event unless a Subsequent Triggering Event shall have occurred prior to an Exercise Termination Event.

8. Substitute Option. (a) In the event that prior to an Exercise Termination Event, Issuer shall enter into an agreement (i) to consolidate with or merge into any person, other than Grantee or any of its Subsidiaries (collectively, "Excluded Persons") and Issuer shall not be the continuing or surviving corporation of such consolidation or merger, (ii) to permit any person, other than an Excluded Person, to merge into Issuer and Issuer shall be the continuing or surviving or acquiring corporation, but, in connection with such merger, the then outstanding shares of Common Stock shall be changed into or exchanged for stock or other securities of any other person or cash or any other property or the then outstanding shares of Common Stock shall after such merger represent less than 50% of the outstanding voting shares and voting share equivalents of the merged or acquiring company, or (iii) to sell or otherwise transfer all or substantially all of its assets to any person, other than an Excluded Person, then, and in each such case, the agreement governing such transaction shall make proper provision so that the Option shall, upon the consummation of any such transaction and upon the terms and conditions set forth herein, be converted into, or exchanged for, an option (the "Substitute Option"), at the election of the Holder, of either (x) the Acquiring Corporation

(as hereinafter defined) or (y) any person that controls the Acquiring Corporation.

(b) The following terms have the meanings indicated:

(i) "Acquiring Corporation" shall mean (i) the continuing or surviving person of a consolidation or merger with Issuer (if other than Issuer), (ii) Issuer in a merger in which Issuer is the continuing or surviving or acquiring person, and (iii) the transferee of all or substantially all of Issuer's assets.

(ii) "Substitute Shares" shall mean the shares of capital stock (or similar equity interest) with the greatest voting power in respect of the election of directors (or other persons similarly responsible for direction of the business and affairs) of the issuer of the Substitute Option.

(iii) "Assigned Value" shall mean the market/offer price as defined in Section 7.

(iv) "Average Price" shall mean the average closing price per Substitute Share, on the principal trading market on which such shares are traded as reported by a recognized source, for the 20 trading day period immediately preceding the consolidation, merger or sale in question, but in no event higher than the closing price of the Substitute Shares on such market on the day preceding

such consolidation, merger or sale; provided that if Issuer is the issuer of the Substitute Option, the Average Price shall be computed with respect to a share of common stock issued by the person merging into Issuer or by any company which controls or is controlled by such person, as the Holder may elect.

(c) The Substitute Option shall have the same terms as the Option, provided that if the terms of the Substitute Option cannot, for legal reasons, be the same as the Option, such terms shall be as similar as possible to the terms of the Option and (to the extent permitted by applicable law) in no event less advantageous to the Holder. The issuer of the Substitute Option shall also enter into an agreement with the then Holder or Holders of the Substitute Option in substantially the same form as this Agreement (after giving effect for such purpose to the provisions of Section 9 hereof), which agreement shall be applicable to the Substitute Option.

(d) The Substitute Option shall be exercisable for such number of

Substitute Shares as is equal to the Assigned Value multiplied by the number of shares of Common Stock for which the Option was exercisable immediately prior to the event described in the first sentence of Section 8(a) hereof, divided by the Average Price. The exercise price of the Substitute Option per Substitute Share shall then be equal to the Option Price multiplied by a fraction, the numerator of which shall be the number of shares of Common Stock for which the Option was exercisable immediately prior to the event described in the first sentence of Section 8(a) hereof and the denominator of which shall be the number of Substitute Shares for which the Substitute Option is exercisable.

(e) In no event, pursuant to any of the foregoing paragraphs, shall the number of shares purchasable upon exercise of the Substitute Option exceed 19.9% of the Substitute Shares then issued and outstanding at the time of exercise (without giving effect to Substitute Shares issued or issuable under the Substitute Option). In the event that the Substitute Option would be exercisable for more than 19.9% of the Substitute Shares then issued and outstanding prior to exercise but for this clause (e), the issuer of the Substitute Option (the "Substitute Option Issuer") shall make a cash payment to Holder equal to the excess of (i) the value of the Substitute Option without giving effect to the limitation in this clause (e) over (ii) the value of the Substitute Option after giving effect to the limitation in this clause (e). This difference in value shall be determined by a nationally recognized investment banking firm selected by Grantee (or, if Grantee is not then the Holder owning Options with respect to the largest number of Shares, the largest Holder) and reasonably acceptable to Issuer, which determination, absent manifest error, shall be conclusive for all purposes of this Agreement.

(f) In addition to any other restrictions or covenants, Issuer agrees that it shall not enter or agree to enter into any transaction described in Section 8(a) hereof unless (i) the Acquiring Corporation and any person that controls the Acquiring Corporation assume in writing all the obligations of Issuer hereunder and (ii) the Substitute Option Issuer agrees to comply with this Section 8 and agrees to take all action necessary to prevent the exercise of any rights of any holder of Substitute Shares or shares of capital stock of any successor to the Substitute Option Issuer that any holder of the Substitute Option (each such person being referred to herein as a

"Substitute Option Holder") or any holder of Substitute Shares (each such person being referred to herein as a "Substitute Share Owner") purchased upon exercise of the Substitute Option by a Substitute Option Holder would be prohibited or precluded from exercising or the exercise of which would adversely affect the rights of any Substitute Option Holder under the agreement for such Substitute Option or the transactions contemplated by the Merger Agreement.

9. Repurchase of Substitute Option. (a) At the written request of a Substitute Option Holder, the Substitute Option Issuer shall repurchase the Substitute Option from the Substitute Option Holder at a price (the "Substitute

Option Repurchase Price") equal to the amount by which (i) the Highest Closing Price (as hereinafter defined) exceeds (ii) the exercise price of the Substitute Option multiplied by the number of Substitute Shares for which the Substitute Option may then be exercised, and at the request of the Substitute Share Owner, the Substitute Option Issuer shall repurchase the Substitute Shares at a price (the "Substitute Share Repurchase Price") equal to the Highest Closing Price multiplied by the number of Substitute Shares so designated. The term "Highest Closing Price" shall mean the highest average closing price for Substitute Shares for any 20 trading day period within the three-month period immediately preceding the date the Substitute Option Holder gives notice of the required repurchase of the Substitute Option or the Substitute Share Owner gives notice of the required repurchase of the Substitute Shares, as applicable.

(b) The Substitute Option Holder and the Substitute Share Owner, as the case may be, may exercise its respective rights to require the Substitute Option Issuer to repurchase the Substitute Option and the Substitute Shares pursuant to this Section 9 by surrendering for such purpose to the Substitute Option Issuer, at its principal office, the agreement for such Substitute Option (or, in the absence of such an agreement, a copy of this Agreement) and/or certificates for Substitute Shares accompanied by a written notice or notices stating that the Substitute Option Holder or the Substitute Share Owner, as the case may be, elects to require the Substitute Option Issuer to repurchase the Substitute Option and/or the Substitute Shares in accordance with the provisions of this Section 9. As promptly as practicable and in any event within five business days after the surrender of the Substitute Option and/or certificates representing Substitute Shares and the receipt of such notice or notices relating thereto, the Substitute Option Issuer shall deliver or cause to be delivered to the Substitute Option Holder the Substitute Option Repurchase Price and/or to the Substitute Share Owner the Substitute Share Repurchase Price therefor or the portion thereof which the Substitute Option Issuer is not then prohibited under applicable law and regulation from so delivering.

(c) To the extent that the Substitute Option Issuer is prohibited under applicable law or regulation from repurchasing the Substitute Option and/or the Substitute Shares in part or in full, the Substitute Option Issuer shall promptly so notify the Substitute Option Holder and/or the Substitute Share Owner and thereafter deliver or cause to be delivered, from time to time, to the Substitute Option Holder and/or the Substitute Share Owner, as appropriate, the portion of the Substitute Option Repurchase Price and/or the Substitute Share Repurchase Price, respectively, which it is no longer prohibited from delivering, within five (5) business days after the date on which the Substitute Option Issuer is no longer so prohibited; provided, however, that if the Substitute Option Issuer is at any time after delivery of a notice of repurchase

pursuant to subsection (b) of this Section 9 is prohibited under applicable law or regulation from delivering to the Substitute Option Holder and/or the Substitute Share Owner, as appropriate, the Substitute Option Repurchase Price

and the Substitute Share Repurchase Price, respectively, in full (and the Substitute Option Issuer shall use its best efforts to receive all required regulatory and legal approvals as promptly as practicable in order to accomplish such repurchase), the Substitute Option Holder and/or Substitute Share Owner may revoke its notice of repurchase of the Substitute Option or the Substitute Shares either in whole or to the extent of the prohibition, whereupon, in the latter case, the Substitute Option Issuer shall promptly (i) deliver to the Substitute Option Holder or Substitute Share Owner, as appropriate, that portion of the Substitute Option Repurchase Price or the Substitute Share Repurchase Price that the Substitute Option Issuer is not prohibited from delivering; and (ii) deliver, as appropriate, either (A) to the Substitute Option Holder, a new Substitute Option evidencing the right of the Substitute Option Holder to purchase that number of Substitute Shares obtained by multiplying the number of Substitute Shares for which the surrendered Substitute Option was exercisable at the time of delivery of the notice of repurchase by a fraction, the numerator of which is the Substitute Option Repurchase Price less the portion thereof theretofore delivered to the Substitute Option Holder and the denominator of which is the Substitute Option Repurchase Price, and/or (B) to the Substitute Share Owner, a certificate for the Substitute Option Shares it is then so prohibited from repurchasing. If an Exercise Termination Event shall have occurred less than 30 days prior to the date of the notice by the Substitute Option Issuer described in the first sentence of this subsection (c), or shall be scheduled to occur at any time before the expiration of a period ending on the thirtieth day after such date, the Substitute Option Holder shall nevertheless have the right to exercise the Substitute Option until the expiration of such 30-day period after the date of the Exercise Termination Event or the notice date, respectively.

10. Extension. The periods for exercise of certain rights under Sections 2, 6, 7, 9 and 12 hereof shall be extended: (i) to the extent necessary to obtain all governmental and regulatory approvals for the exercise of such rights (for so long as the Holder, Substitute Option Holder or Substitute Share Owner, as the case may be, is using its reasonable best efforts to obtain such regulatory approvals), and for the expiration of all statutory waiting periods; (ii) during any period for which an injunction or similar legal prohibition on exercise shall be in effect; (iii) to the extent necessary to avoid liability under Section 16(b) of the Exchange Act by reason of such exercise; and (iv) by the number of days by which Issuer shall have delayed any registration pursuant to Section 6(d) hereof.

11. Representations and Warranties. (a) Issuer hereby represents and warrants to Grantee as follows:

(i) Issuer has full corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly authorized by the Board of Directors of Issuer and no other corporate proceedings on the part of Issuer are necessary to authorize this Agreement or to consummate the transactions so

contemplated. This Agreement has been duly and validly

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executed and delivered by Issuer and constitutes a valid and legally binding obligation of Issuer enforceable against Issuer in accordance with its terms (except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and similar laws of general applicability relating to or affecting creditors' rights or by general equity principles, whether such principles are considered at law or in equity).

(ii) Issuer has taken all necessary corporate action to authorize and reserve and to permit it to issue, and at all times from the date hereof through the termination of this Agreement in accordance with its terms will have reserved for issuance upon the exercise of the Option, that number of shares of Common Stock equal to the maximum number of shares of Common Stock at any time and from time to time issuable hereunder, and all such shares, upon issuance pursuant to the Option, will be duly authorized, validly issued, fully paid, nonassessable, and will be delivered free and clear of all claims, liens, encumbrances and security interests (other than those created by this Agreement) and not subject to any preemptive rights.

(iii) The execution, delivery and performance of this Agreement does not or will not, and the consummation by Issuer of any of the transactions contemplated hereby will not, constitute or result in (i) a breach or violation of or a default under, its articles or certificate of incorporation or by-laws, or the comparable governing instruments of any of its subsidiaries, or (ii) a breach or violation of or a default under, any agreement, lease, contract, note, mortgage, indenture, arrangement or other obligation of it or any of its subsidiaries (with or without the giving of notice, the lapse of time or both) or under any law, rule, ordinance or regulation or judgment, decree, order, award or governmental or non-governmental permit or license to which it or any of its subsidiaries is subject, except where such breach, violation or default would not in the aggregate have a Material Adverse Effect (as defined in the Merger Agreement) and would not materially impair Issuer's ability to consummate the transactions contemplated by this Agreement.

(b) Grantee hereby represents and warrants to Issuer that Grantee has full corporate power and authority to enter into this Agreement and, subject to

obtaining the approvals referred to in this Agreement, to consummate the transactions contemplated by this Agreement; the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Grantee; and this Agreement has been duly executed and delivered by Grantee and constitutes a valid and legally binding obligation of Grantee enforceable against Grantee in accordance with its terms (except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and similar laws of general applicability relating to or affecting creditors' rights or by general equity principles, whether such principles are considered at law or in equity).

12. Assignment. Neither of the parties hereto may assign any of its rights or obligations under this Agreement or the Option created hereunder to any other person, without the express written consent of the other party, except that in the event a Subsequent Triggering Event shall have occurred prior to an Exercise Termination Event, Grantee, subject to the express provisions hereof, may assign in whole or in part its rights and obligations hereunder within twelve (12) months following such Subsequent Triggering Event (or such later period as provided in Section 10 hereof) provided that the assignee executes a supplement to this Agreement agreeing to be bound by this Agreement's terms.

13. Filings; Other Actions. Each of Grantee and Issuer will use its reasonable best efforts to make all filings with, and to obtain consents of, all third parties and regulatory and governmental authorities necessary for the consummation of the transactions contemplated by this Agreement, including, without limitation, notices and filings under HSR and making application to list the shares of Common Stock issuable hereunder on Nasdaq upon official notice of issuance.

14. Specific Performance. The parties hereto acknowledge that damages would be an inadequate remedy for a breach of this Agreement by either party hereto and that the obligations of the parties hereto shall be enforceable by either party hereto through injunctive or other equitable relief.

15. Severability. If any term, provision, covenant or restriction contained in this Agreement is held by a court or a federal or state regulatory agency of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions and covenants and restrictions contained in this Agreement shall remain in full force and effect, and shall in no way be affected, impaired or invalidated. If for any reason such court or regulatory agency determines that the Holder is not permitted to acquire, or Issuer or Substitute Option Issuer, as applicable, is not permitted to repurchase pursuant to Section 7 or 9 hereof, as applicable, the full number of shares of Common Stock provided in Section 1(a) hereof (as adjusted pursuant to Section 1(b) or Section 5 hereof), it is the express intention of Issuer to allow the Holder to acquire or to require Issuer to repurchase such lesser number of shares as may

be permissible, without any amendment or modification hereof.

16. Notices. All notices, requests, claims, demands and other communications hereunder shall be deemed to have been duly given when delivered in person, by fax, telecopy, or by registered or certified mail (postage prepaid, return receipt requested) at the respective addresses of the parties set forth in the Merger Agreement or such other address as shall be provided in writing.

17. Governing Law. This Agreement shall be governed by, and interpreted in accordance with, the laws of the State of New York, without regard to the conflicts of laws principles thereof.

18. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to constitute an original.

19. Expenses. Except as otherwise expressly provided herein, each of the parties hereto shall bear and pay all costs and expenses incurred by it or on its behalf in connection with the transactions contemplated hereunder, including fees and expenses of its own financial consultants, investment bankers, accountants and counsel.

20. Entire Agreement. Except as otherwise expressly provided herein or in the Merger Agreement, this Agreement contains the entire agreement between the parties with respect to the transactions contemplated hereunder and supersedes all prior arrangements or understandings with respect thereof, written or oral. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assignees. Nothing in this Agreement, expressed or implied, is intended to confer upon any party, other than the parties hereto, and their respective successors except as assignees, any rights, remedies, obligations or liabilities under or by reason of this Agreement, except as expressly provided herein.

21. Limitation on Profit. (a) Notwithstanding any other provision of this Agreement, the Grantee's Total Profit (as hereinafter defined) shall be limited to $70,000,000 and, if it otherwise would exceed this amount, the Grantee, at its sole election, shall either (i) reduce the number of shares of Common Stock subject to this Option (or the number of shares of common stock of the Substitute Option Issuer subject to this Substitute Option, as the case may be), (ii) deliver to the Issuer (or Substitute Option Issuer) for cancellation Option Shares (or Substitute Shares) previously purchased by Grantee (or subsequent share owner), (iii) pay cash to the Issuer (or Substitute Option Issuer), or (iv) any combination thereof, so that Grantee's realized Total Profit shall not exceed $70,000,000 after taking into account the foregoing actions.

(b) Notwithstanding any other provision of this Agreement, this Option (or Substitute Option) may not be exercised for a number of shares as would, as of the date of exercise, result in a Notional Total Profit (as defined below) which would exceed $70,000,000; provided, that nothing in this sentence shall restrict any exercise of the Option (or Substitute Option) permitted hereby on any subsequent date.

(c) As used in this Agreement, the term "Total Profit" shall mean the aggregate amount (before taxes) of the following: (i) (x) the amount received by Grantee and any other Holder or Substitute Option Holder pursuant to Issuer's repurchase of the Option (or any portion thereof) or any Option Shares in accordance with Section 7, or pursuant to Substitute Option Issuer's repurchase of the Substitute Option (or any portion thereof) or any Substitute Shares in accordance with Section 9, less, in the case of any repurchase of Option Shares or Substitute Shares, (y) the Grantee's and any other Holder's or Substitute Option Holder's purchase price for such Option Shares or Substitute Shares, as the case may be, (ii) (x) the net cash amounts (and the fair market value of any other consideration) received by Grantee and any other Holder or Substitute Option Holder pursuant to the sale of Option Shares or Substitute Shares (or any other securities into which such Option Shares or Substitute Shares are converted or exchanged) to any unaffiliated party, less (y) the Grantee's (or any other Holder's or Substitute Option Holder's) purchase price of the Option Shares or Substitute Shares, and (iii) the net cash

amounts (and the fair market value of any other consideration) received by Grantee (or any other Holder or Substitute Option Holder) on the transfer of the Option or Substitute Option (or any portion thereof) to any unaffiliated party. In the case of clauses (ii) (x) and (iii) above, the Grantee and any Holder or Substitute Option Holder agree to furnish as promptly as reasonably practicable after any disposition of all or a portion of the Option or Option Shares or of the Substitute Option or Substitute Shares a complete and correct statement, certified by a responsible executive officer or partner of the Grantee or Holder or Substitute Option Holder, of the net cash amounts (and the fair market value of any other consideration) received in connection with any sale or transfer of the Option or Option Shares or of the Substitute Option or Substitute Shares.

(d) As used in this Agreement, the term "Notional Total Profit" with respect to any number of shares as to which Grantee and any other Holder or Substitute Option Holder may propose to exercise this Option or Substitute Option shall be the Total Profit determined as of the date of such proposal assuming that this Option or Substitute Option were exercised on such date for such number of shares and assuming that such shares, together with all other Option Shares or Substitute Shares held by Grantee and any other Holders or Substitute Option Holders and their respective affiliates as of such date, were sold for cash at the closing market price for the Common Stock (or the common stock of the Substitute Option Issuer, as the case may be) as of the close of business on the preceding trading day (less customary brokerage commissions).

22. Captions; Capitalized Terms. The section and paragraph captions herein are for convenience of reference only, do not constitute part of this Agreement and shall not be deemed to limit or otherwise affect any of the provisions hereof. Capitalized terms used in this Agreement and not defined herein shall have the meanings assigned thereto in the Merger Agreement.

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IN WITNESS WHEREOF, each of the parties has caused this Agreement to be executed on its behalf by its officers thereunto duly authorized, all as of the date first above written.

NORTEL NETWORKS CORPORATION

By: /s/

Name:
Title:

By: /s/

Name:
Title:

CLARIFY Inc.

By: /s/

Name:
Title:

EXECUTION VERSION

EXHIBIT 99.2

STOCKHOLDERS AGREEMENT

This STOCKHOLDERS AGREEMENT (this "Agreement"), dated as of October 18, 1999, is entered into by and among Kirsten Berg-Painter, Dean Chabrier, Dennis Cunningham, Tanya Johnson, Jan Praisner, Senya Rahmil, David Stamm, Jay Tyler, Jeanne Urich, Anthony Zingale (each a "Stockholder Party") and Nortel Networks Corporation, a corporation organized under the laws of Canada ("Nortel").

WHEREAS, simultaneously with the execution of this Agreement, Nortel, Northern Crown Subsidiary, Inc., a wholly owned subsidiary of Nortel ("Sub"), and Clarify Inc., a corporation organized under the laws of Delaware (the "Company"), are entering into an Agreement and Plan of Merger, dated as of the date hereof (as the same may be amended or supplemented, the "Merger Agreement") providing, among other things, for the Merger of Sub with and into the Company (the "Merger"); and

WHEREAS, as of the date hereof, each Stockholder Party is the Beneficial Owner (as defined below) of, and has the sole right to vote and dispose of, the shares of common stock, par value $0.0001 per share of the Company ("Common Stock"), set forth in Schedule A (the "Owned Shares"); and

WHEREAS, as an inducement and a condition to their entering into the Merger Agreement and incurring the obligations set forth therein, Nortel has required that each Stockholder Party enter into this Agreement;

NOW, THEREFORE, in consideration of the foregoing and the mutual premises, representations, warranties, covenants and agreements contained herein and in the Merger Agreement, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Certain Definitions. Capitalized terms used but not defined in this Agreement are used in this Agreement with the meanings given to such terms in the Merger Agreement. In addition, for purposes of this Agreement:

"Affiliate" means, with respect to any specified Person, any Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Person specified. For purposes of this Agreement, with respect to any Stockholder Party, "Affiliate" shall not include the Company and the Persons that directly, or indirectly through one or more intermediaries, are controlled by the Company.

"Alternative Transaction" has the meaning set forth in Section 2(b) hereof.

"Beneficially Owned" or "Beneficial Ownership" with respect to any securities means having beneficial ownership of such securities (as determined pursuant to Rule 13d-3 under the Exchange Act, disregarding the phrase "within 60 days" in paragraph (d)(1)(i) thereof), including pursuant to any agreement, arrangement or understanding, whether or not in writing. Without duplicative counting of the same securities by the same holder, securities Beneficially Owned by a Person shall include securities Beneficially Owned by all Affiliates of such Person

and all other Persons with whom such Person would constitute a "Group" within the meaning of Section 13(d) of the Exchange Act and the rules promulgated thereunder.

"Beneficial Owner" with respect to any securities means a Person who has Beneficial Ownership of such securities.

"Company Meeting" has the meaning set forth in Section 3 hereof.

"Proposed Business Combination" means the transactions contemplated by the Merger Agreement.

"Transfer" means, with respect to a security, the sale, transfer, pledge, hypothecation, encumbrance, assignment or disposition of such security or the Beneficial Ownership thereof, the offer to make such a sale, transfer or other disposition, and each option, agreement, arrangement or understanding, whether or not in writing, to effect any of the foregoing. As a verb, "Transfer" shall have a correlative meaning.

2. No Disposition or Solicitation.

(a) Each Stockholder Party agrees that from and after the date hereof, except as contemplated by this Agreement, such party will not Transfer or agree to Transfer any Common Stock Beneficially Owned by such party other than with Nortel's prior written consent, or grant any proxy or power-of-attorney with respect to any such Common Stock other than pursuant to this Agreement; provided, that nothing in this Section 2(a) shall prohibit any Stockholder Party from effecting any Transfer of Common Stock Beneficially Owned by such Stockholder Party (i) by will or applicable laws of descent and distribution or (ii) to any member of the immediate family of such Stockholder Party, or any trust, limited partnership or other similar entity the Beneficial Ownership of which is held by the Stockholder Party or such family members (each a "Permitted Transferee"), so long as such Permitted Transferee agrees in writing, in form and substance reasonably satisfactory to Nortel, to be bound by the terms of this Agreement to the same extent as such Stockholder Party is bound.

(b) Each Stockholder Party agrees that from and after the date hereof, except as contemplated by this Agreement or, solely in such Stockholder Party's capacity as an officer or director of the Company, as permitted by the Merger Agreement, such Stockholder Party and such party's Affiliates and representatives, will not directly or indirectly solicit, initiate, or encourage any inquiries or proposals from, discuss or negotiate with, or provide any non-public information to, any Person relating to, or otherwise facilitate any tender or exchange offer, proposal for a merger, consolidation or other business combination involving the Company or any of its subsidiaries or any proposal or offer to acquire in any manner a substantial equity interest in, or a substantial portion of the assets of, the Company or any of its subsidiaries other than the Proposed Business Combination (an "Alternative Transaction").

(c) Each Stockholder Party agrees that, except for communications made in the course of his duties as an officer of the Company or unless required by applicable law, neither such Stockholder Party nor any of such party's Affiliates shall make any press release, public announcement or other communication with respect to Nortel or the business or affairs of the

Company, including this Agreement and the Merger Agreement and the transactions contemplated hereby and thereby, without the prior written consent of Nortel.

3. Stockholder Vote; Offer. Each Stockholder Party agrees that (i)

at such time as the Company conducts a meeting of or otherwise seeks a vote or consent of its stockholders for the purpose of approving the Merger Agreement and the Merger (such meeting or any adjournment thereof, or such consent process, the "Company Meeting"), such Stockholder Party will vote, or provide a consent with respect to, all Common Stock (including the Owned Shares) then Beneficially Owned by such party over which such party has voting power ("Voting Shares") in favor of the Merger Agreement and the Merger, provided that such Stockholder Party shall not be required to vote for, or provide a consent with respect to, any action that would reduce the number of Nortel Common Shares to be received by such Stockholder Party in respect of such party's Common Stock in the Merger, and (ii) such Stockholder Party will (at any meeting of stockholders) vote such party's Voting Shares against, and such party will not consent to, any Alternative Transaction or any action that would delay, prevent or frustrate the transactions contemplated by the Merger Agreement.

Without limiting the foregoing, it is understood that the obligations under clause (i) above shall remain applicable in respect of each meeting of stockholders of the Company duly called for the purpose of approving the Merger Agreement and the Merger regardless of the position of the Company Board as to the Merger at the time of such meeting, and that the obligations under clause (ii) above shall continue to the extent set forth in Section 10.

4. Reasonable Efforts to Cooperate. Each Stockholder Party will (a) use all reasonable efforts to cooperate with the Company, Nortel and Sub in connection with the transactions contemplated by the Merger Agreement, (b) promptly take such actions as are necessary or appropriate to consummate such transactions and (c) provide any information reasonably requested by the Company, Nortel or Sub for any regulatory application or filing made or approval sought for such transactions (including filings with the SEC).

5. Other Stock. Each Stockholder Party agrees that any shares of Common Stock acquired by such Stockholder Party or over which such Stockholder Party acquires Beneficial Ownership, whether pursuant to existing stock option agreements, warrants or otherwise, shall be subject to the provisions of this Agreement.

6. Irrevocable Proxy. (i) In furtherance of the agreements contained in Section 3 of this Agreement, each Stockholder Party hereby irrevocably grants to, and appoints, Nortel and J.A. Roth, Vice Chairman and Chief Executive Officer of Nortel, F.A. Dunn, Senior Vice President and Chief Financial Officer of Nortel, and W.R. Kerr, Senior Vice President, Finance and Business Development, of Nortel, in their respective capacities as officers of Nortel, and any individual who shall hereafter succeed to any such office of Nortel, and each of them individually, such Stockholder Party's proxy and attorney-in-fact (with full power of substitution), for and in the name, place and stead of such Stockholder Party, to vote all Voting Shares Beneficially Owned by such Stockholder Party, or grant a consent or approval in respect of such Voting Shares, or execute and deliver a proxy to vote such Voting Shares, (x) subject to the proviso set forth in clause (i) of the first paragraph of Section 3, in favor of the Merger and the Merger Agreement and approval of the terms thereof and each of the other transactions

contemplated by the Merger Agreement and (y) against any Alternative Transaction or any other matter referred to in clause (ii) of the first sentence of Section 3 hereof.

(ii) Each Stockholder Party represents and warrants to Nortel that any proxies heretofore given in respect of such party's Voting Shares are not irrevocable, and hereby revokes any such proxies.

(iii) Each Stockholder Party hereby affirms that the irrevocable proxy set forth in this Section 6 is given in connection with, and in consideration of, the execution of the Merger Agreement by Nortel and Sub, and that such irrevocable proxy is given to secure the performance of the duties of such Stockholder Party under this Agreement. Each Stockholder Party hereby further affirms that the irrevocable proxy is coupled with an interest and may under no circumstances be revoked. Such Stockholder Party hereby ratifies and confirms all that such irrevocable proxy may lawfully do or cause to be done by virtue hereof. Such irrevocable proxy is executed and intended to be irrevocable in accordance with the provisions of Section 218 of the Delaware General Corporation Law. The proxy granted in this Section 6 shall remain valid until terminated pursuant to Section 10 hereof or until earlier terminated with respect to shares of Common Stock that are Transferred in accordance with this Agreement.

7. Covenant of Stockholder Parties. Each Stockholder Party agrees to take all action necessary to (i) permit (a) such Stockholder Party's Owned Shares to be acquired in the Merger and (b) the voting of such Stockholder Party's Voting Shares in accordance with the terms of this Agreement and (ii) prevent creditors in respect of any pledge of such Stockholder Party's Owned Shares from exercising their rights under such pledge.

8. Representations, Warranties and Covenants of Stockholder Parties. Each Stockholder Party hereby represents and warrants to, and agrees with, Nortel as follows:

(a) Such Stockholder Party has all necessary power and authority and legal capacity to execute and deliver this Agreement and perform his obligations hereunder.

(b) This Agreement has been duly and validly executed and delivered by such Stockholder Party and constitutes the valid and binding agreement of such Stockholder Party, enforceable against such Stockholder Party in accordance with its terms except to the extent limited by (i) applicable bankruptcy, insolvency or similar laws affecting creditors' rights or (ii) general equity principles, whether considered at law or in equity.

(c) Each Stockholder Party is the sole Beneficial Owner of such party's Owned Shares. Each Stockholder Party has good and marketable title (which may include holding in nominee or "street" name) to all of such party's Owned Shares, free and clear of all liens, claims, options, proxies, voting agreements and security interests (other than as created by this Agreement and restrictions on Transfer under applicable securities laws). Except as set forth in Schedule A, the Owned Shares constitute all of the capital stock of the Company Beneficially Owned by such Stockholder Party and neither such Stockholder Party nor such party's Affiliates is the Beneficial Owner of, or has any right to acquire (whether currently, upon lapse of time, following the satisfaction of any conditions, upon the occurrence of any event or any

combination of the foregoing) any Common Stock or any securities convertible into or exchangeable or exercisable for Common Stock.

(d) Neither the execution and delivery of this Agreement by each Stockholder Party nor the consummation of the transactions contemplated hereby will (i) conflict with, result in any violation of, require any consent under or constitute a default (whether with notice or lapse of time or both) by such Stockholder Party under any mortgage, bond, indenture, agreement, instrument or obligation to which such Stockholder Party is a party or by which such Stockholder Party or any of the Voting Shares is bound; (ii) violate any judgment, order, injunction, decree or award of any court, administrative agency

or governmental body that is binding on such Stockholder Party; or (iii) constitute a violation by such Stockholder Party of any law or regulation of any jurisdiction, in each case except for violations, conflicts or defaults that would not have a material adverse effect on the ability of such Stockholder Party to perform such party's obligations under this Agreement.

(e) Each Stockholder Party understands and acknowledges that Nortel and Sub are entering into the Merger Agreement in reliance upon such Stockholder Party's execution, delivery and performance of this Agreement. Each Stockholder Party acknowledges that such Stockholder Party's irrevocable proxy set forth in Section 6 is granted in consideration of the execution and delivery of the Merger Agreement by Nortel.

9. Representations and Warranties of Nortel. Nortel represents and warrants to the Stockholder Parties that Nortel has full corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder. The execution, delivery and performance of this Agreement by Nortel will not constitute a violation of, conflict with or result in a default under, (i) any contract, understanding or arrangement to which Nortel is a party or by which it is bound or require the consent of any other Person or any party pursuant thereto, (ii) any judgment, decree or order applicable to Nortel, or (iii) any law, rule or regulation of any governmental body, in each case except for violations, conflicts or defaults that would not have a material adverse effect on the ability of Nortel to perform its obligations under this Agreement; and this Agreement constitutes a legal, valid and binding agreement on the part of Nortel, enforceable against Nortel in accordance with its terms, except as such enforceability may be limited by principles applicable to creditors' rights generally or governing the availability of equitable relief. The execution and delivery by Nortel of this Agreement and the consummation by Nortel of the transactions contemplated hereby have been duly and validly authorized by the Board of Directors of Nortel and no other corporate proceedings on the part of Nortel are necessary to authorize this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by Nortel.

10. Termination. This Agreement, and all rights and obligations of the parties hereunder, shall terminate on the earlier of:

(a) the Effective Time;

(b) termination of the Merger Agreement in accordance with the provisions of Section 8.01(a), 8.01(d)(i), 8.01(d)(ii) or 8.01(d)(iii) of the Merger Agreement, or termination of the Merger Agreement by the Company in

accordance with the provisions of Section 8.01(b) thereof, or termination of the Merger Agreement by Nortel in accordance with the provisions of Section 8.01(b) thereof by reason solely of non-willful breaches of representations warranties or covenants by the Company, or termination of the Merger Agreement by Nortel in accordance with the provisions of Section 8.01(c);

(c) termination of the Merger Agreement by the Company in accordance with the provisions of Section 8.01(c), or termination of the Merger Agreement pursuant to Section 8.01(d)(iv) thereof, or termination of the Merger Agreement by Nortel in accordance with the provisions of Section 8.01(b) thereof under circumstances where clause (b) above is inapplicable, in each case only if at the time of such termination the conditions to payment of the Termination Fee set forth in Section 8.02(b)(i), 8.02(b)(ii) or 8.02(b)(iii), other than the condition set forth in clause (z) of the relevant section,

have not been met; and

(d) 120 days following the termination of the Merger Agreement other than as set forth in clause (b) or (c) above;

provided, however, that the term of this Agreement shall be extended by a period of days equal to the duration of any temporary or permanent order, writ or injunction issued by a court of competent jurisdiction that invalidates, impedes or enjoins the operation or enforcement of this Agreement, the Merger Agreement or any agreement contemplated hereby or thereby or entered into in connection herewith or therewith.

11. Miscellaneous.

(a) This Agreement represents the entire understanding of the parties hereto with reference to the subject matter hereof and supersedes any and all other oral or written agreements and understandings among the parties heretofore made.

(b) Each Stockholder Party agrees that this Agreement and the respective rights and obligations of such Stockholder Party hereunder shall attach to any Common Stock, and any securities convertible into such shares, that may become Beneficially Owned by such Stockholder Party.

(c) Except as otherwise provided in this Agreement, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such expenses.

(d) This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties and their respective successors, personal or legal representatives, executors, administrators, heirs, distributees, devisees, legatees and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any party (whether by operation of law or otherwise) without the prior written consent of the other parties; provided, that Nortel may assign any or all rights under this Agreement to Sub or any other Subsidiary. Nothing in this Agreement, express or implied, is

intended to or shall confer upon any other Person any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement.

(e) This Agreement may not be amended, changed, supplemented, or otherwise modified or terminated, except upon the execution and delivery of a written agreement executed by the parties hereto; provided, that Nortel may waive compliance by any other party with any representation, agreement or condition otherwise required to be complied with by any other party under this Agreement or release any other party from its obligations under this Agreement, but any such waiver or release shall be effective only if in writing executed by Nortel.

(f) All notices and other communications hereunder shall be in writing and shall be deemed given upon (a) transmitter's confirmation of a receipt of a facsimile transmission, (b) confirmed delivery by a standard overnight carrier or when delivered by hand or (c) the expiration of five business days after the day when mailed by certified or registered mail, postage prepaid, addressed at:

(i) in the case of a Stockholder Party, to such Stockholder Party at the address set forth beside its name on Schedule A hereto; and

(ii) if to Nortel, to:

Nortel Networks Corporation
8200 Dixie Road, Suite 100
Brampton, Ontario
Canada L6T 5P6
Attention: Corporate Secretary
Fax: (905) 863-8386
Phone: (905) 863-0000

with a copy to:

Cleary, Gottlieb, Steen & Hamilton
One Liberty Plaza
New York, New York 10006
Attention: Victor I. Lewkow, Esq.
Fax: (212) 225-3999
Phone: (212) 225-2370

or to such other address or facsimile number as the Person to whom notice is given shall have previously furnished to the others in writing in the manner set forth above.

(g) If any term, provision, covenant or restriction contained in this Agreement is held by a court or a federal or state regulatory agency of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions and covenants and restrictions contained in this Agreement shall remain in full force and effect, and shall in no way be affected, impaired or invalidated.

(h) Each Stockholder Party acknowledges and agrees that in the event of any breach of this Agreement, Nortel would be irreparably and immediately harmed and could not be made whole by monetary damages. It is accordingly agreed that (a) each Stockholder Party will waive, in any action for specific performance, the defense of adequacy of a remedy at law, and (b) Nortel shall be entitled, in addition to any other remedy to which it may be entitled at law or in equity, to compel specific performance of this Agreement.

(i) All rights, powers and remedies provided under this Agreement or otherwise available in respect hereof at law or in equity shall be cumulative and not alternative, and the exercise of any thereof by any party shall not preclude the simultaneous or later exercise of any other such right, power or remedy by such party. The failure of any party hereto to exercise any right, power or remedy provided under this Agreement or otherwise available in respect hereof at law or in equity, or to insist upon compliance by any other party hereto with its obligations hereunder, and any custom or practice of the parties at variance with the terms hereof, shall not constitute a waiver by such party of its right to exercise any such or other right, power or remedy or to demand such compliance.

(j) This Agreement shall be governed by, and interpreted in accordance with, the laws of the State of New York.

(k) The section and paragraph captions herein are for convenience of reference only, do not constitute part of this Agreement and shall not be deemed to limit or otherwise affect any of the provisions hereof.

(l) This Agreement may be executed in one or more counterparts, each of which shall be deemed to constitute an original.

12. Stockholder Capacity. No Stockholder Party executing this Agreement who is or becomes during the term hereof a director or officer of the Company makes any agreement or understanding herein in such Stockholder Party's capacity as such director or officer. Each Stockholder Party signs solely in such Stockholder Party's capacity as the record holder and/or beneficial owner of the Owned Shares and Voting Shares, and nothing herein shall limit or affect any actions taken or omitted to be taken by a Stockholder Party in such party's capacity as an officer or director of the Company to the extent specifically permitted by the Merger Agreement.

13. Further Assurances. From time to time, at Nortel's reasonable request and without further consideration, each Stockholder Party shall execute and deliver such additional documents and take all such further lawful action as may be necessary or desirable to consummate and make effective, in the most expeditious manner practicable, the transactions contemplated by this Agreement.

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

Kirsten Berg-Painter

/s/ KIRSTEN BERG-PAINTER

Dean Chabrier

/s/ DEAN CHABRIER

Dennis Cunningham

/s/ DENNIS CUNNINGHAM

Tanya Johnson

/s/ TANYA JOHNSON

Jan Praisner

/s/ JAN PRAISNER

Senya Rahmil

/s/ SENYA RAHMIL

10

David Stamm

/s/ DAVID STAMM

Jay Tyler

/s/ JAY TYLER

Jeanne Urich

/s/ JEANNE URICH

Anthony Zingale

/s/ ANTHONY ZINGALE

11

NORTH CORPORATION

By: /s/

Name:
Title:

By: /s/

Name:
Title:

12

Schedule A

STOCKHOLDER PARTIES

<TABLE>
<CAPTION>

NAME	SHARES	ADDRESS
<S>	<C>	<C>
Kirsten Berg-Painter	Owned Shares: 0	c/o Clarify Inc.

	Shares subject to options: 250,000	2560 Orchard Parkway San Jose, California 95131 Fax: (408) 965-4610
Dean Chabrier	Owned Shares: 0 Shares subject to options: 160,000	c/o Clarify Inc. 2560 Orchard Parkway San Jose, California 95131 Fax: (408) 965-4610
Dennis Cunningham	Owned Shares: 0 Shares subject to options: 175,000	c/o Clarify Inc. 2560 Orchard Parkway San Jose, California 95131 Fax: (408) 965-4610
Tanya Johnson	Owned Shares: 5,284 Shares subject to options: 175,017	c/o Clarify Inc. 2560 Orchard Parkway San Jose, California 95131 Fax: (408) 965-4610
Jan Praisner	Owned Shares: 0 Shares subject to options: 325,000	c/o Clarify Inc. 2560 Orchard Parkway San Jose, California 95131 Fax: (408) 965-4610
Senya Rahmil	Owned Shares: 2,830 Shares subject to options: 206,666	c/o Clarify Inc. 2560 Orchard Parkway San Jose, California 95131 Fax: (408) 965-4610
David Stamm	Owned Shares: 1,109,622 Shares subject to options: 165,000	c/o Clarify Inc. 2560 Orchard Parkway San Jose, California 95131 Fax: (408) 965-4610

</TABLE>

<TABLE>

<S>	<C>	<C>
Jay Tyler	Owned Shares: 0 Shares subject to options: 200,000	c/o Clarify Inc. 2560 Orchard Parkway San Jose, California 95131 Fax: (408) 965-4610
Jeanne Urich	Owned Shares: 557 Shares subject to options: 205,000	c/o Clarify Inc. 2560 Orchard Parkway San Jose, California 95131 Fax: (408) 965-4610
Anthony Zingale	Owned Shares: 2,091 Shares subject to options: 600,000	c/o Clarify Inc. 2560 Orchard Parkway San Jose, California 95131 Fax: (408) 965-4610
	Aggregate Owned Shares: 1,122,446 Aggregate shares subject to options: 2,461,683	c/o Clarify Inc. 2560 Orchard Parkway San Jose, California 95131 Fax: (408) 965-4610

</TABLE>

EXHIBIT 99.3
October 18, 1999

NORTEL NETWORKS TO ACQUIRE CLARIFY FOR US$2.1 BILLION, ESTABLISHES FIRST MOVER ADVANTAGE IN CREATING SECOND WAVE OF eBUSINESS

To Redefine Customer Experience by Unifying High-Performance Internet, Personalized Customer Interactions, and Front Office Solutions

SAN JOSE, California - Nortel Networks* [NYSE/TSE: NT] and Clarify Inc. [NASDAQ: CLFY] announced a definitive merger agreement whereby Nortel Networks will acquire Clarify, the world's second largest provider of front office solutions for eBusiness. Nortel Networks, a world leader in communications, networking and Internet Protocol (IP) solutions, will pay an estimated US$2.1 billion in its common shares for all of the common shares of Clarify, on a fully diluted basis.

The combination of Nortel Networks and Clarify creates a new industry leader in technologies, applications, and services that will drive the second wave of eBusiness. The first wave of eBusiness focused on individual transactions that changed how companies worked. Together, the combined companies will drive the second wave, focused on the customer, by enabling personalized interactions and a complete experience that leverages the high-performance Internet.

"The top business imperative is developing eBusiness strategies that create lasting customer relationships," said F. William Conner, executive vice president and recently announced president, Enterprise Solutions, Nortel Networks. "Together we will provide a new customer experience by unifying the high performance Internet with front office solutions and customer interactions of all kinds. This will deliver greater returns on customer relationships for enterprises and service providers worldwide."

"Nortel Networks' global reach and market leadership in the convergence of the Internet and communications, combined with Clarify's leadership in front office software, creates a first mover in this new wave of eBusiness," said Tony Zingale, CEO and president of Clarify. "Nortel Networks and Clarify's common commitment to building a new class of customer relationships will create awesome value for our customers, partners and employees."

As a result of this acquisition, enterprises and service providers will be able to anticipate and respond to customer needs, personalize interactions, and increase customer loyalty. The combined company will enable a single view of the total customer experience across sales, marketing, and service while leveraging all customer touch points - phone, fax, web, e-mail and in person.

Upon completion of the transaction, Clarify will become a wholly owned

subsidiary of Nortel Networks. Clarify will continue to be headquartered in San Jose, California and CEO and President Tony Zingale will continue to lead the business. On completion of the acquisition, Nortel Networks will have more than 4,000 employees in Silicon Valley.

Under the terms of the agreement, Clarify shareholders will receive a fixed exchange ratio of 1.3 Nortel Networks common shares for each share of Clarify common stock. Based on the closing price of US$52.69 per common share of Nortel Networks on Friday, October 15, 1999, this represents a price of US$68.49 per share of Clarify and an aggregate price of US$2.1 billion for the common shares of Clarify on a fully diluted basis.

The transaction, which is expected to close in the first quarter of 2000, will be tax-free to Clarify's United States shareholders. The transaction is expected to be neutral to Nortel Networks' earnings per share in calendar year 2000 and accretive in 2001 (excluding acquisition-related charges in both cases). The boards of directors of both companies have approved the transaction. In addition, Clarify has agreed to grant Nortel Networks an option to purchase up to 19.9% of its outstanding common shares. The completion of the transaction is subject to customary regulatory approvals and the approval of Clarify shareholders.

CLARIFY ANNOUNCES PRELIMINARY RESULTS
Clarify is a global provider of enterprise solutions for managing customer relationships in companies across virtually every industry. In a separate announcement today, Clarify announced preliminary results for its third quarter including revenues of approximately US$62 to US$63 million and earnings per share above consensus estimates. Revenues for Clarify's fiscal year ended in December 1998 were US$130.5 million. Clarify has almost 800 employees in the Americas, Europe, and Asia. The company pioneered the first integrated suite of front office applications, and was the first to introduce a number of key innovations such as web self-service that personalize every customer interaction.

Founded in 1990, Clarify Inc. is the world's second largest front office software provider. Clarify eFrontOffice combines customer relationship management and eBusiness capabilities in a single solution allowing companies to quickly deploy e-business sales, marketing and service initiatives. Clarify is the choice of leading corporations including Best Buy, British Telecommunications, Compaq, E*Trade, First USA, General Electric, giggo.com, Gillette, H&R Block, Microsoft, and Prudential. Clarify has strategic alliances with Ernst & Young, KPMG, and PricewaterhouseCoopers. The company has a direct sales and service organization with offices in Asia Pacific, Europe, North America and South America. Contact Clarify at 1-408-965-7000, via e-mail at info@clarify.com or on the web at www.clarify.com.

Nortel Networks delivers value to customers around the world through Unified Networks* solutions, spanning mission-critical telephony and IP-optimized networks. Customers include public and private enterprises and institutions; Internet service providers; local, long-distance, cellular and PCS communications companies, cable television carriers, and utilities.

Nortel Networks' common shares are listed on the New York, Toronto, Montreal and London stock exchanges. Nortel Networks had 1998 revenues of US$17.6 billion and has approximately 70,000 employees worldwide.

Credit Suisse First Boston acted as financial advisor to Nortel Networks in this transaction and Morgan Stanley Dean Witter represented Clarify.

Certain information included in this press release is forward-looking and is

subject to important risks and uncertainties. The results or events predicted in these statements may differ materially from actual results or events. Factors which could cause results or events to differ from current expectations include, among other things: the impact of rapid technology change and voice and data convergence; price and product competition; international growth, foreign exchange, and interest rates; general industry and market conditions and growth rates; unanticipated impact of Year 2000 issues; and the impact of consolidations in the telecommunications industry. For additional information with respect to certain of these and other factors, see the reports filed by Nortel Networks and Clarify Inc. with the United States Securities and Exchange Commission, specifically the most recent reports on Form 10-K. Nortel Networks and Clarify Inc. disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Take part in our web cast at 5:30 p.m. EDT, Monday, October, 18, 1999 at http://www.nortelnetworks.com/pressconf101899 or call 1-800-728-4629 in the U.S. or 416-641-6680 internationally. To listen to a replay of the conference, call 905-863-5885, pass code: 13354375#

CONTACT FOR PRESS AND ANALYSTS:

Media:
David Chamberlin
Nortel Networks
972-685-4648
ddchamb@nortelnetworks.com

Susan MacCall
Clarify Inc.
(408) 965-7581
smaccall@clarity.com

Investor Relations:
Angela McMonagle
Nortel Networks
905-863-6044
mcmona@nortelnetworks.com

Willa Patch
Clarify Inc.
(408) 965-7630

Or visit Nortel Networks' website at www.nortelnetworks.com and Clarify's website at www.clarify.com.