

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

Current report filing

Filing Date: **2001-08-03** | Period of Report: **2001-08-01**
SEC Accession No. **0000950117-01-500828**

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FILER

SORRENTO NETWORKS CORP

CIK: **812491** | IRS No.: **222367234** | State of Incorporation: **NJ** | Fiscal Year End: **0131**
Type: **8-K** | Act: **34** | File No.: **000-15810** | Film No.: **1697151**
SIC: **3661** Telephone & telegraph apparatus

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SAN DIEGO CA 92121

Business Address
9990 MESA RIM ROAD
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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): August 1, 2001

SORRENTO NETWORKS CORPORATION
(Exact name of Registrant as specified in charter)

Commission File number: 0-15810

<TABLE>

<S>

New Jersey
(State or other jurisdiction of incorporation or
organization)

<C>
22-2367234
(IRS Employer Identification Number)

9990 Mesa Rim Road
San Diego, California
(Address of principal executive offices)

92121
(Zip Code)

</TABLE>

(858) 558-3960
(Registrant's telephone number, including area code)

ITEM 5. OTHER EVENTS

On August 1, 2001, we entered into an agreement to issue senior convertible debentures in the principal amount of \$32.2 million along with warrants to a group of ten investors. These securities were issued pursuant to an exemption from registration under the Securities Act of 1933, as amended.

Copies of the securities purchase agreement, registration rights agreement, certificate of designation and escrow agreement and forms of the debentures and the warrants with respect to the transaction, as well as a copy of the press release announcing the transaction, are attached as exhibits to this report.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits

3.12 Certificate of Designation of Series F Preferred Stock.

4.7 Form of Senior Convertible 9.75% Debenture due August 2, 2004.

- 4.8 Form of Warrant dated August 2, 2001.
- 10.13 Securities Purchase Agreement dated as of August 1, 2001.
- 10.14 Escrow Agreement dated as of August 1, 2001.
- 10.15 Registration Rights Agreement dated as of August 2, 2001.
- 99 Press Release dated August 2, 2001.

SIGNATURES

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

SORRENTO NETWORKS
CORPORATION

DATE: August 2, 2001

By: /s/Joe Armstrong

Joe Armstrong
Chief Financial Officer

News Release

[SORRENTO LOGO]

Investor Contacts:

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Sorrento Networks Corporation

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SORRENTO NETWORKS CORPORATION COMPLETES
FINANCING AGREEMENT

San Diego, CA - August 2, 2001 - Sorrento Networks Corporation (Nasdaq NM: FIBR), a leading provider of metro and regional optical networking solutions, announced today that it has issued approximately \$32 million of senior convertible debentures to a group of institutional investors.

The investment allows for the conversion of debentures into, and exercise of associated warrants for, the company's common stock at a premium to the Company's closing stock price on August 1, 2001. The investment-banking firm, SG Cowen Securities Corporation, assisted the Company in raising the financing from a syndicate of several institutional investors. A portion of the financing may be subject to regulatory and other approvals. Further details regarding the transaction will be disclosed in a Form 8-K scheduled to be filed with the SEC on August 3, 2001.

"This investment provides the operating capital required by the company to address the growing demand for its products," said Dr. Xin Cheng, Sorrento Networks' Chairman and Chief Executive Officer. "This financing is an important step in implementing the company's plans to improve its cash position, meet our customers' needs, and achieve

profitability. We are extremely positive about Sorrento's growth prospects in the metro and regional market."

Sorrento Networks supplies optical networking solutions to a broad range of customers including, incumbent telecommunications service providers (Deutsche Telekom, Belgacom), cable and multi-service operators (Cox Communications, AT&T Broadband, United Pan-Europe Communications), and 'utility-comms' (Edison Carrier Services, El Paso Global Networks).

About Sorrento

Sorrento Networks, headquartered in San Diego, is a leading supplier of end-to-end, intelligent optical networking solutions for metro and regional applications worldwide. Sorrento Networks' products support a wide range of protocols and network traffic over linear, ring and mesh topologies.

Sorrento Networks' existing customer base and market focus includes communications carriers in the telecommunications, cable TV, fixed wireless and utilities markets. The Storage Area Network (SAN) market is addressed through alliances with SAN system integrators.

Recent news releases and additional information about Sorrento Networks can be found at www.sorrentonet.com.

Except for historical information contained herein, the matters discussed in this release are forward-looking statements that involve risks and uncertainties. Words such as "plans," "expects," "intends," and variations of such words and similar expressions are intended to identify such forward-looking statements. The forward-looking statements in this release are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The occurrence of actual events may differ materially due to a variety of factors, including without limitation the following: (1) the Company's ability, or lack thereof, to make, market and sell optical networking products that meet with market approval and acceptance; (2) the greater financial, technical and other resources of the Company's many, larger competitors in the marketplace for optical networking products; (3) changed market conditions, new business opportunities or other factors that might affect the Company's decisions as to the best interests of its shareholders; (4) other risks detailed from time to time in the Company's reports filed with the U.S. Securities and Exchange Commission. The Company undertakes no obligation to release publicly the results of any revision to these forward-looking statements to reflect events or circumstances arising after the date hereof.

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CERTIFICATE OF DESIGNATIONS

of

SERIES F PREFERRED STOCK

of

SORRENTO NETWORKS CORPORATION

Pursuant to Section 14A:7-2 of the
New Jersey Business Corporation Act

Sorrento Networks Corporation, a corporation organized and existing under the laws of the State of New Jersey (the "Corporation"), does hereby certify that, pursuant to the authority conferred on the Board of Directors of the Corporation by Article 4 of the Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation") of the Corporation and in accordance with Section 14A:7-2 of the New Jersey Business Corporation Act, the Board of Directors of the Corporation adopted the following resolution establishing a series of 1,000,000 shares of Preferred Stock of the Corporation designated as "Series F Preferred Stock" (referred to herein as the "Series F Preferred Stock"):

RESOLVED, that pursuant to the authority conferred on the Board of Directors of the Corporation by Article 4 of the Amended and Restated Certificate of Incorporation and by Section 14A:7-2 of the New Jersey Business Corporation Act, a series of Preferred Stock, \$.01 par value per share, of the Corporation is hereby established and created, and the Board of Directors hereby fixes the designations and preferences and relative participating, optional and other special rights and qualifications, limitations and restrictions of a series of Preferred Stock consisting of 1,000,000 shares to be designated as Series F Preferred Stock.

SERIES F PREFERRED STOCK

The relative rights, preferences, privileges and restrictions of the Series F Preferred Stock are as follows:

1. Dividends. (a) (i) The holders of the outstanding shares of Series F Preferred Stock shall be entitled to receive, out of any funds legally available therefor, cumulative dividends at the annual rate of nine and three-quarters percent (9.75%) on the Original Issuance Price (as defined below) per share (and fractional interests therein) compounded quarterly on January 31, April 30, July 31 and October 31 of each year in which such share is outstanding.

(ii) Such dividends shall accrue based upon the Original Issue Price as defined in Section 2(a) below from day to day on each share of Series F Preferred Stock from the date of original issuance of such share, whether or not earned or declared. Such dividends shall be payable (A) on January 31, April 30, July 31 and October 31 of each year in which such share is outstanding, (B) upon liquidation, dissolution or winding up of the Corporation within the meaning of Section 2 hereof, (C) upon a Sale Event (as defined below) or (D) upon a redemption pursuant to Section 4 hereof.

(iii) All numbers relating to calculation of cumulative dividends shall be subject to equitable adjustment in the event of any stock dividend, stock split, combination, reorganization, recapitalization, reclassification or other similar event involving a change in the capital structure of the Series F Preferred Stock.

(iv) Such dividends on the Series F Preferred Stock (or fractional interests therein) shall be cumulative so that if such dividends in respect of any previous or current annual dividend period, at the annual rate specified above, shall not have been paid or declared and a sum sufficient for the payment thereof set apart, the deficiency shall first be fully paid before any dividend or other distribution shall be paid or declared and set apart for the Common Stock (as hereinafter defined).

(b) In addition to the dividends provided for in subsection (a) above, if the Board of Directors of the Corporation shall declare a dividend or make any other distribution (including in cash or other property or assets), to holders of shares of Common Stock, other than a dividend payable solely in shares of Common Stock, then the holders of each share of Series F Preferred Shares shall be entitled to receive, out of legally available funds, a dividend or distribution in an amount equal to ten times the amount of such dividend or distribution to be paid with respect to each share of Common Stock. Any such amount shall be paid to the holders of shares of Series F Preferred Shares at the same time such dividend or distribution is made to holders of Common Stock. Dividends payable pursuant to this subsection shall be payable in the same form paid to the holders of the Common Stock.

(c) Upon the occurrence of a Sale Event, all unpaid accrued or accumulated dividends on Series F Preferred Shares shall be immediately due and payable.

2. Liquidation, Dissolution or Winding Up; Certain Mergers, Consolidations and Asset Sales.

(a) In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation (a "Liquidation Event"), the holders of shares of Series F Preferred Stock then outstanding shall be entitled to be paid out of the assets of the Corporation available for distribution to its stockholders, *pari passu* with the holders of the Common Stock, an amount per share equal to the sum (the "Series F Liquidation Preference") of (i) the greater of (A) \$72.10 (subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization affecting the Common Stock) (the "Original Issue Price"), or (B) if the NASD Approval (as defined in Section 7) has not been obtained prior to the NASD Deadline (as defined in Section 7), the Market Value plus (ii) all accrued and unpaid dividends. If upon any such liquidation, dissolution or winding up of the Corporation the assets of the Corporation available for distribution to its stockholders shall be insufficient to pay the full Series F Liquidation Preference, the holders of shares of Series F Preferred Stock (or fractional interests therein) shall share ratably in the assets and funds of the Corporation available for distribution to its stockholders in proportion to the respective amounts which would otherwise be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.

(b) After payment in full of the Series F Liquidation Preference to holders of all shares (or fractional interests therein) of Series F Preferred Stock, the Series F Preferred Stock shall not be entitled to receive any additional cash, property or other assets of the Corporation upon the liquidation, dissolution or winding up of the Corporation.

(c) Any merger or consolidation of the Corporation into or with another corporation (except one in which the holders of capital stock of the Corporation immediately prior to such merger or consolidation continue to hold at least 70% of the voting power of the capital stock of the surviving or acquiring corporation (on a fully diluted basis) immediately after such merger or consolidation), or sale or other transfer of all or substantially all the assets of the Corporation, which, for the avoidance of doubt, shall be deemed to include any sale or transfer of 10% or more of the equity in, or any substantial part of the assets of, the Corporation's Sorrento Networks, Inc. subsidiary, (each of the foregoing, a "Sale Event"), shall be deemed to be a liquidation of the Corporation for purposes of this Section 2, and the agreement

or plan of merger or consolidation with respect to such merger, consolidation or sale shall provide that the Series F Liquidation Preference shall be distributed to the holders of the Series F Preferred Stock in accordance with Subsections 2(a), and 2(b) above; provided, however, that if (A) the NASD Approval has been obtained prior to the NASD Deadline, (B) the Common Stock of the Corporation is to be exchanged for any property other than cash in connection with any Sale Event, and (C) as of the date of the closing of such Sale Event, the Market Value is greater than the Original Issue Price, the agreement or plan of merger or consolidation with respect to such merger, consolidation or sale shall provide for the distribution to the holders of the Series F Preferred Stock (or fractional interests therein) of an amount of such property per one-tenth share equal to the amount of such property to be received in respect of each share of Common Stock in lieu of the Series F Liquidation Preference. The provisions of this Subsection 2(c) shall not

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apply to any Sale Event (i) involving (A) only a change in the state of incorporation of the Corporation and no change in the outstanding capital stock of the Corporation or (B) a merger of the Corporation with or into a wholly-owned subsidiary of the Corporation that is incorporated in a State of the United States or (ii) that the holders of at least two thirds of the outstanding shares of Series F Preferred Stock, voting as a separate class at a meeting or consenting in writing, elect not to treat as a Sale Event for purposes of this Section 2.

3. Voting.

(a) The holders of the outstanding shares of Series F Preferred Stock shall not be entitled to vote at any meeting of stockholders of the Corporation (or take any written actions of stockholders in lieu of meetings) with respect to any and all matters presented to the stockholders of the Corporation for their action or consideration, except as provided in Section 2(c) above or in Sections 3(b) below.

(b) In addition to any other rights provided by law, the Corporation shall not, without first obtaining the affirmative vote or written consent of the holders of at least two-thirds of the then outstanding shares of Series F Preferred Stock voting or consenting in writing together as a separate class, take any corporate action (other than such action that is expressly authorized by the terms hereof) that would:

(i) Increase the number of authorized shares of Series F Preferred Stock, except as may be required in order to comply with the

terms of the Debentures (as defined in Section 7) or the Warrants (as defined in Section 7), in which case the number of authorized shares of Series F Preferred Stock may be increased by the directors of the Corporation pursuant to Section 14A:7-1 of the New Jersey Business Corporations Law;

(ii) Adversely affect the rights, preferences or privileges of the outstanding shares of Series F Preferred Stock;

(iii) Create a new class or series of Preferred Stock having liquidation preferences or dividend rights senior to or on parity with the Series F Preferred Stock, except that the Corporation may issue a class or series of Preferred Stock which is pari passu with the Series F if such Preferred Stock is issued to the holders of Sorrento Networks, Inc.'s Series A Preferred Stock.

(iv) Increase the liquidation preferences or dividend rights of any class or series of capital stock of the Corporation having liquidation preferences or dividend rights junior to or on parity with the Series F Preferred Stock;

(v) Exchange, reclassify or cancel all or part of the Series F Preferred Stock; or

(vi) Cancel or modify any dividend on the Series F Preferred Stock that has been declared but has not been paid.

4. Redemption. Each holder of the Series F Preferred Stock shall have the absolute right to cause the Corporation to redeem any or all of such holder's Series F Preferred Stock for an amount in cash per share of Series F Preferred Stock equal to the Series F Liquidation Preference. In order to exercise its redemption right, a holder of the Series F Preferred Stock shall give notice (the "Redemption Notice") to the Corporation in accordance with Section 5(b), stating the number of shares or fractional shares (but not less than one-tenth of each share) of Series F Preferred Stock to be redeemed, the aggregate number of shares of Series F Preferred Stock held by such holder and the date on or before which such redemption is to occur (the "Redemption Date"). Each Redemption Notice must be sent to the Corporation at least 120 days prior to the Redemption Date designated in such Redemption Notice. Upon receipt of any Redemption Notice, the Corporation shall immediately give notice of such receipt to all other holders of the Series F Preferred Stock in accordance with Section 5(b). The holders of the Series F Preferred Stock may cause the Corporation to redeem such holder's shares from time to time throughout the Redemption Period

until all of such holder's shares have been redeemed by the Corporation.

5. Record Date; Notices. (a) In the event of any taking by this Corporation of a record of the holders of the Series F Preferred Stock (or fractional interests therein) for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, this Corporation shall mail to each holder of Series F Preferred Stock (or fractional interests therein), no more than 60 days nor less than 10 days prior to the date specified therein, a notice specifying the date on which any such record is to be taken for the purpose of such dividend, distribution or right, and the amount and character of such dividend, distribution or right.

(b) Any notice required by the provisions of this Certificate of Designations to be given to the holders of shares of Series F Preferred Stock (or fractional interests therein) shall be deemed given if deposited in the United States mail, postage prepaid, and addressed to each holder of record at his address appearing on the books of this Corporation. Any notice required by the provisions of this Certificate of Designations to be given to the Corporation by holders of shares of Series F Preferred Stock (or fractional interests therein) shall be deemed given if deposited in the United States mail, postage prepaid, and addressed to the Chief Financial Officer of the Corporation at 9990 Mesa Rim Road, San Diego, California 92121 or such other address as the Corporation may communicate by notice to the holders.

6. Waiver. Any of the rights of the holders of Series F Preferred Stock (or fractional interests therein) set forth herein may be waived by the affirmative vote or consent in writing of the holders of more than two-thirds of the shares of Series F Preferred Stock then outstanding.

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7. Definitions. For purposes of this Certificate of Designations, the following terms shall have the following meanings:

- (a) "Bloomberg" shall mean Bloomberg Financial Markets or any other similar financial reporting service as may be selected from time to time by the Corporation and the holders of no less than two-thirds of the outstanding Series F Preferred Stock.
- (b) "Common Stock" means (i) the Company's common stock, par

value \$0.30 per share, and (ii) any capital stock into which such Common Stock shall have been changed or any capital stock resulting from a reclassification of such Common Stock and all other stock of any class or classes (however designated) of the Company the holders of which have the right, without limitation as to amount, either to all or to a share of the balance of current dividends and liquidating dividends after the payment of dividends and distributions on any shares entitled to preference.

- (c) "Closing Sale Price" shall mean, for the Common Stock as of any date, the last closing trade price for the Common Stock on the Principal Market, as reported by Bloomberg, or if the Principal Market begins to operate on an extended hours basis, and does not designate the closing trade price, then the last trade price at 4:00 p.m., New York City Time, as reported by Bloomberg, or if the foregoing do not apply, the last closing trade price of the Common Stock in the over-the-counter market on the electronic bulletin board for such security as reported by Bloomberg, or, if no last closing trade price is reported for such security by Bloomberg, the last closing ask price of the Common Stock as reported by Bloomberg, or, if no last closing ask price is reported for the Common Stock by Bloomberg, the average of the highest bid price and the lowest ask price of any market makers for the Common Stock as reported in the "pink sheets" by the National Quotation Bureau, Inc. If the Closing Sale Price cannot be calculated for the Common Stock on such date on any of the foregoing bases, the Closing Sale Price for the Common Stock on such date shall be the fair market value as mutually determined by the Corporation and the holders of no less than two-thirds of the outstanding Series F Preferred Stock. If the Corporation and the holders of the Series F Preferred Stock are unable to agree upon the fair market value of the Common Stock, then such dispute shall be resolved as provided for in Section 6(e)(iii) of the Debentures. All such determinations shall be appropriately adjusted for any stock dividend, stock split or other similar transaction during such period.
- (d) "Debentures" shall mean the 9.75% Convertible Debentures Due August 2, 2004 issued pursuant to the Securities Purchase Agreement.

- (e) "Market Value" shall mean an amount per share of Series F Preferred Stock equal to (i) the average of the Closing Sale Price of the Common Stock for the 20 consecutive trading days preceding the date of the relevant Liquidation Event, Sale Event or Redemption Date, as applicable, multiplied by (ii) 10.
- (f) "NASD" shall mean the National Association of Securities Dealers, Inc.
- (g) "NASD Approval" shall mean receipt by the Corporation, on or prior to the NASD Deadline, of a written response to its request that the NASD confirm that no Shareholder Approval is required for the transactions contemplated by the Debentures and the Warrants, satisfactory in form and substance to the holders (voting in their sole discretion) of not less than a majority of the outstanding principal amount of the Debentures. If the NASD Approval is not obtained prior to the NASD Deadline, then the NASD Approval shall not be deemed to have been obtained.
- (h) "NASD Deadline" shall mean August 29, 2001.
- (i) "Principal Market" shall mean the NASDAQ National Market System, or if the Common Stock is not traded on the NASDAQ National Market System, then the principal securities exchange or trading market for the Common Stock.
- (j) "Securities Purchase Agreement" shall mean that certain securities purchase agreement between the Corporation and the initial holders of the Debentures.
- (k) "Shareholder Approval" shall mean the affirmative approval of the Corporation's stockholders of the issuance of Common Stock upon conversion of the Debentures and exercise of the Warrants at a price per share less than the market value of the Common Stock as of the date of this Certificate in accordance with applicable law and the rules and regulations of the Principal Market on or prior to the earlier of (i) 120 days from the date of this Certificate or (ii) the next meeting of the stockholders of the Corporation.
- (l) "Warrants" shall mean the Warrants issued to the purchasers of the Debentures pursuant to the Securities Purchase Agreement.

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IN WITNESS WHEREOF, Sorrento Networks Corporation has caused this certificate to be signed on its behalf by its duly authorized representative this 2nd day of August, 2001.

SORRENTO NETWORKS CORPORATION

By: /s/ Joe R. Armstrong

NAME: Joe R. Armstrong

TITLE: Vice President

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THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS OR (B) AN OPINION OF COUNSEL, IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR APPLICABLE STATE SECURITIES LAWS OR (II) UNLESS SOLD PURSUANT TO RULE 144 UNDER SAID ACT. THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN SECURED BY THE SECURITIES.

THE OUTSTANDING PRINCIPAL AMOUNT REPRESENTED BY THIS DEBENTURE MAY BE LESS THAN THE AMOUNT STATED ON THE FACE HEREOF PURSUANT TO SECTION 8 HEREIN.

No. 1 \$ _____

SORRENTO NETWORKS CORPORATION

9.75% SENIOR CONVERTIBLE DEBENTURE DUE AUGUST 1, 2004

THIS DEBENTURE (this "Debenture") is one of a duly authorized issue of Debentures of SORRENTO NETWORKS CORPORATION, a corporation duly organized and existing under the laws of the State of New Jersey (the "Company"), designated as its 9.75% Senior Convertible Debentures Due August 1, 2004, in an aggregate principal amount of Thirty-Two Million Two Hundred Thousand U.S. Dollars (U.S. \$32,200,000) issued pursuant to the Securities Purchase Agreement (as defined below) (the "Debentures").

FOR VALUE RECEIVED, the Company promises to pay to _____, the holder hereof, or its order (the "Holder"), the principal sum of _____ Million Dollars (\$ _____) on August 1, 2004 (subject to extension as provided herein, the "Maturity Date") and to pay interest ("Interest Payments") on the principal sum outstanding from time to time under this Debenture ("Outstanding Principal Amount"), at the rate of 9.75% per annum which shall be cumulative, accrue daily from the date of issuance of this Debenture and be due and payable on the first day of each calendar quarter immediately following the date of issuance of this Debenture (each, an "Interest Payment Date"). If an Interest Payment Date is not a Business Day, then the Interest

Payment shall be due and payable on the Business Day immediately following such Interest Payment Date. Interest Payments shall be payable, at the option of the Company, in cash (each such cash Interest Payment being referred to herein as a "Cash Interest Payment") or by one (or any combination) of the Non-Cash Payment Methods which may be elected by the holder of this Debenture by written notice to the Company prior to the Interest Payment Date; provided that the Interest Payments which accrued during any period shall be payable in cash only if the Company provides written notice ("Interest Payment Election Notice") to each holder of Debentures at least ten (10) Business Days prior to the Interest Payment Date. Notwithstanding the foregoing, the Company shall be required to make Cash Interest Payments (a) if Common Stock cannot be issued to Holders without violating the rules of the Principal Market, (b) any event constituting a Triggering Event (as defined in Section 11) or an Event of Default (as defined in Section 22), or an event that with the passage of time and without being cured would constitute a Triggering Event or Event of Default, has occurred and is continuing on the Interest Payment Date or any date which is within 10 Business Days prior to the Interest Payment Date, unless otherwise consented to in writing by the holder of this Debenture entitled to receive such Interest Payment or (c) from and after the time that any Registration Statement (as defined in the Registration Rights Agreement, the "Registration Statement") is required to be effective, the shares of Common Stock issuable in respect of an Interest Payment and otherwise issuable upon conversion of the Debentures and exercise of the Warrants are not registered for resale by the holder in a Registration Statement that is effective and available for the resale by the holder of all of the Registrable Securities (as defined in the Registration Rights Agreement) on the Interest Payment Date or each date which is within 10 Business Days prior to the Interest Payment Date. Any accrued and unpaid Cash Interest Payments which are not paid within two (2) Business Days of such accrued and unpaid Interest Payments' Interest Payment Date shall bear interest at the rate of the lesser of (i) 18.0% per annum or (ii) the maximum amount of interest allowed to be charged by applicable law for commercial transactions of this nature from such Interest Payment Date until the same is paid in full (the "Default Interest"). Interest Payments will be paid to the person in whose name this Debenture (or one or more predecessor Debentures) is registered on the records of the Company regarding registration and transfers of the Debentures (the "Debenture Register").

This Debenture is subject to the following additional provisions:

1. Exchange. The Debentures are exchangeable for an equal aggregate principal amount of Debentures of different denominations, as requested by the Holder surrendering the same. No service charge will be charged to the Holder for such registration transfer or exchange.

2. [Intentionally omitted.]

3. Transfers. This Debenture has been issued subject to investment representations of the original purchaser hereof and may be transferred or exchanged in the United States only in compliance with the Securities Act of 1933, as amended (the "Act"), and applicable state securities laws. Prior to due presentment for transfer of this Debenture, the Company may treat the person in whose name this Debenture is duly registered on the Company's Debenture Register as the owner hereof for the purpose of receiving payment as herein provided and all other purposes, whether or not this Debenture be overdue, and the Company shall not be affected by notice to the contrary.

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4. Definitions. For purposes of this Debenture, the location of defined terms in this Debenture is set forth on the Index of Terms attached hereto and the following terms shall have the following meanings:

"Approved Stock Plan" shall mean any employee benefit plan which has been approved by the Board of Directors of the Company, pursuant to which the Company's securities may be issued to any employee, officer, consultant or director for services provided to the Company, provided that the aggregate amount issued or deemed issued under such plan, after the Issuance Date, does not exceed 14,381,116 shares of Common Stock, subject to appropriate adjustment for any stock dividends, any subdivision or combination, or other reorganization of the outstanding shares of Common Stock.

"Bloomberg" shall mean Bloomberg Financial Services, L.P. or any other similar financial reporting service as may be selected from time to time by the Company and the holders of the Debentures representing two-thirds of the Outstanding Principal Amount of the Debentures then outstanding.

"Business Day" shall mean any day other than Saturday, Sunday or other day on which commercial banks in The City of New York are authorized or required by law to remain closed.

"Closing Bid Price" shall mean, for any security as of any date, the last closing bid price for such security on the Principal Market as reported by Bloomberg, or if the Principal Market begins to operate on an extended hours basis, and does not designate the closing bid price, then the last bid price at 4:00 p.m., New York City Time, as reported by Bloomberg, or if the foregoing do not apply, the last closing bid price of such security in the over-the-counter market on the electronic bulletin board for such security as reported by Bloomberg, or, if no closing bid price is reported for such security

by Bloomberg, the last closing trade price for such security as reported by Bloomberg, or, if no last closing trade price is reported for such security by Bloomberg, the average of the bid prices of any market makers for such security as reported in the "pink sheets" by the National Quotation Bureau, Inc. If the Closing Bid Price cannot be calculated for such security on such date on any of the foregoing bases, the Closing Bid Price of such security on such date shall be the fair market value as mutually determined by the Company and the holders of no less than two-thirds of the Outstanding Principal Amount of the Debentures then outstanding. If the Company and the holders of the Debentures are unable to agree upon the fair market value of the Common Stock, then such dispute shall be resolved pursuant to Section 6(e)(iii) below with the term "Closing Bid Price" being substituted for the term "Closing Sale Price". All such determinations shall be appropriately adjusted for any stock dividend, stock split or other similar transaction during such period.

"Closing Sale Price" shall mean, for any security as of any date, the last closing trade price for such security on the Principal Market as reported by Bloomberg, or if the Principal Market begins to operate on an extended hours basis, and does not designate the closing trade price, then the last trade price at 4:00 p.m., New York City Time, as reported by Bloomberg, or if the foregoing do not apply, the last closing trade price of such security in the over-the-counter market on the electronic bulletin board for such security as reported by Bloomberg, or, if no last closing trade price is reported for such security by Bloomberg, the last closing ask price of such security as reported by Bloomberg, or, if no last closing ask price is

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reported for such security by Bloomberg, the average of the highest bid price and the lowest ask price of any market makers for such security as reported in the "pink sheets" by the National Quotation Bureau, Inc. If the Closing Sale Price cannot be calculated for such security on such date on any of the foregoing bases, the Closing Sale Price of such security on such date shall be the fair market value as mutually determined by the Company and the holders of no less than two-thirds of the Outstanding Principal Amount of the Debentures then outstanding. If the Company and the holders of the Debentures are unable to agree upon the fair market value of the Common Stock, then such dispute shall be resolved pursuant to Section 6(e)(iii) below. All such determinations shall be appropriately adjusted for any stock dividend, stock split or other similar transaction during such period.

"Common Stock" shall mean (i) the Common Stock, par value \$.30 per share, of the Company and (ii) any capital stock into which such Common Stock shall have been changed or any capital stock resulting from a

reclassification of such Common Stock and all other stock of any class or classes (however designated) of the Company the holders of which have the right, without limitation as to amount, either to all or to a share of the balance of current dividends and liquidating dividends after the payment of dividends and distributions on any shares entitled to preference.

"Common Stock Deemed Outstanding" shall mean at any given time, the number of shares of Common Stock and Preferred Shares actually outstanding at such time, plus the number of shares of Common Stock deemed to be outstanding pursuant to Sections 10(a)(i) and 10(a)(ii) hereof regardless of whether the Options or Convertible Securities are actually exercisable at such time, but excluding any shares of Common Stock owned and Preferred Shares or held by or for the account of the Company or issuable upon conversion of the Debentures or exercise of the Warrants.

"Conversion Price" shall mean (A) as of any Conversion Date or other date of determination during the period beginning on the Issuance Date and ending on and including the day immediately preceding the Mandatory Conversion or Redemption Date (as defined below), the Standard Conversion Price, (B) as of any Conversion Date or other date of determination on or after the Mandatory Conversion or Redemption Date, the Maturity Conversion Price and (C) as of any Conversion Date or other date of determination after the Mandatory Conversion or Redemption Date if the Company has failed to pay any and all required payments of the Maturity Date Redemption Price in a timely manner as described in Section 7, the Default Conversion Price, each in effect as of such date and subject to adjustment as provided herein.

"Convertible Securities" shall mean any stock or securities (other than Options) directly or indirectly convertible into or exchangeable or exercisable for Common Stock.

"Credit Facility" shall mean the indebtedness owed to Silicon Valley Bank or a similar lender pursuant to a credit, loan or similar agreement to be entered into which indebtedness may not exceed \$15,000,000 in aggregate principal amount outstanding at any time.

"Default Conversion Price" shall mean as of any Conversion Date or other date of determination, the lesser of (A) the Standard Conversion Price as of such date and (B) the

product of (x) 100% and (y) the lowest Closing Bid Price during the three (3) trading days ending on and including such Conversion Date or other date of

determination.

"Escrow Agent" means Bank of New York.

"Escrow Amount" means \$10,244,635.87.

"Financial Ability Failure Maturity Conversion Price" shall mean the product of (i) 100% and (y) the arithmetic average of the Weighted Average Price of the Common Stock on each trading day during the Maturity Measuring Period.

"Initial Outstanding Principal Amount" shall mean the Outstanding Principal Amount of this Debenture on the Issuance Date.

"Interest Conversion Price" shall mean with respect to any Interest Payment Date, the product of (i) 100% multiplied by (ii) the Closing Bid Price of the Common Stock on the trading day immediately preceding such Interest Payment Date.

"Issuance Date" shall mean, with respect to each Debenture, the date of issuance of the applicable Debenture.

"Mandatory Conversion or Redemption Date" shall mean August 2, 2004.

"Maturity Conversion Price" shall mean the product of (i) 100% and (y) the lesser of (A) the arithmetic average of the Closing Bid Price of the Common Stock on each trading day during the 20 consecutive trading days immediately preceding the Mandatory Conversion or Redemption Date and (B) the Closing Bid Price on the trading day immediately preceding the Mandatory Conversion or Redemption Date.

"Maturity Date" shall mean August 2, 2004, unless extended pursuant to Section 7.

"Maximum Share Amount" shall mean 2,836,222 shares of Common Stock (subject to adjustment for stock splits, stock dividends, recapitalizations, combinations, reverse stock splits or other similar events).

"NASD" shall mean the National Association of Securities Dealers, Inc. (or, where appropriate, the NASDAQ Stock Market).

"NASDAQ" shall mean the NASDAQ National Market System.

"Non-Cash Payment Methods" shall mean the payment of interest due pursuant to this Debenture by either (i) including the Interest Payment in the Outstanding Principal Amount or (ii) making such Interest Payment in fully paid and non assessable shares of Common Stock ("Interest Payment Shares") in accordance with Section 6, in an amount equal to the quotient of the Interest Payment divided by the Interest Conversion Price on the applicable Interest Payment Date. If the holder fails to elect a Non-Cash Payment Method with

respect to any Interest Payment then such Interest Payment shall be treated as provided in clause (ii) of the foregoing sentence.

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"Options" shall mean any rights, warrants or options to subscribe for or purchase Common Stock or Convertible Securities.

"Person" shall mean an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and a government or any department or agency thereof.

"Preferred Shares" shall mean shares of the Series F Preferred Stock.

"Principal Market" shall mean NASDAQ, or if the Common Stock is not traded on NASDAQ, then the principal securities exchange or trading market for the Common Stock.

"Registration Rights Agreement" shall mean that certain registration rights agreement between the Company and the initial holders of the Debentures relating to the filing of a registration statement covering the resale of the shares of Common Stock issuable upon conversion of the Debentures, exercise of the Warrants and payment of Interest Payment Shares, as such agreement may be amended from time to time as provided in such agreement.

"Securities Purchase Agreement" shall mean that certain securities purchase agreement between the Company and the initial holders of the Debentures, as such agreement may be amended from time to time as provided in such agreement.

"Series F Preferred Stock" shall mean the Company's Series F Cumulative Redeemable Preferred Stock, \$.01 par value per share, with the voting powers, preferences and relative, participating, optional and other special rights set forth in the Certificate of Designations attached hereto as Exhibit II.

"Shareholder Vote" shall mean the Company providing each stockholder of the Company entitled to vote at the earlier of (1) 120 days from the date of the Issuance Date (the "Stockholder Meeting Deadline") or (2) the next meeting of the stockholders with a proxy statement, which has been previously reviewed by the Holders and a counsel of their choice, soliciting each such stockholder's affirmative vote at such stockholder meeting for

approval of the Company's issuance of Common Stock upon conversion of the Debenture and exercise of the Warrants at a price per share less than the market value of the Common Stock as of the Issuance Date in accordance with applicable law and the rules and regulations of the Principal Market (such affirmative approval being referred to herein as the "Shareholder Approval"), and the Company shall use its best efforts, including retaining the services of a nationally recognized proxy solicitation firm to solicit the Shareholder Approval and to cause the Board of Directors of the Company to recommend Shareholder Approval to the stockholders.

"Standard Conversion Price" shall mean Seven and 21/100 Dollars (\$7.21), subject to adjustment as provided herein.

"Strategic Financing" shall mean the issuance of Common Stock or warrants to purchase Common Stock at a purchase price or an exercise price, as the case may be, that is not

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less than the Closing Bid Price of the Common Stock over the five (5) Business Days prior to issuance of such Common Stock or warrant, to any strategic partner, the primary purpose of which is not to raise equity capital but to establish (i) strategic alliances in the telecommunications industry or (ii) contractual relationships with Persons who will assist in the marketing and promoting of the Company and its products; provided that the aggregate number of shares of Common Stock which the Company may issue pursuant to this definition shall not exceed 1,000,000 shares (subject to adjustment for stock splits, stock dividends, stock combination and similar transactions).

"Warrants" shall mean the warrants to purchase shares of Common Stock issued by the Company pursuant to the Securities Purchase Agreement.

"Weighted Average Price" shall mean, for any security as of any date, the dollar volume-weighted average price for such security on the Principal Market during the period beginning at 9:30 a.m., New York City Time, and ending at 4:00 p.m., New York City Time, as reported by Bloomberg through its "Volume at Price" function or, if the foregoing does not apply, the dollar volume-weighted average price of such security in the over-the-counter market on the electronic bulletin board for such security during the period beginning at 9:30 a.m., New York City Time, and ending at 4:00 p.m., New York City Time, as reported by Bloomberg, or, if no dollar volume-weighted average price is reported for such security by Bloomberg for such hours, the average of the highest closing bid price and the lowest closing ask price of any of the market

makers for such security as reported in the "pink sheets" by the National Quotation Bureau, Inc. If the Weighted Average Price cannot be calculated for such security on such date on any of the foregoing bases, the Weighted Average Price of such security on such date shall be the fair market value as mutually determined by the Company and the holders of no less than two-thirds of the Outstanding Principal Amount of the Debentures then outstanding. If the Company and the holders of the Debentures are unable to agree upon the fair market value of the Common Stock, then such dispute shall be resolved pursuant to Section 6(e) (iii) with the term "Weighted Average Price" being substituted for the term "Closing Sale Price." All such determinations shall be appropriately adjusted for any stock dividend, stock split or other similar transaction during such period.

5. NASD Approval. The Company has submitted to the NASD a written request as to whether the transaction contemplated by the Debentures and Warrants requires a Shareholder Approval. If the Company receives, on or prior to August 29, 2001 (the "NASD Deadline"), a written response to such request satisfactory in form and substance to the holders (voting in their sole discretion) of not less than a majority of the Outstanding Principal Amount of the Debentures (the "NASD Approval"), then the NASD Approval shall be deemed to have been obtained.

6. Conversion at the Option of the Holder. The Holder of this Debenture shall have the following conversion rights:

(a) Holder's Right to Convert. Subject to Sections 6(b) and 17, at any time or times on or after the Closing Date, this Debenture is convertible, at the option of the Holder hereof, into fully paid, validly issued and nonassessable shares of Common Stock and Preferred Shares (or fractional interests therein) in accordance with Section 6(e) at the Conversion Rate (as defined below). If this Debenture remains outstanding on the Mandatory

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Conversion or Redemption Date, then, pursuant and subject to Section 7, this Debenture shall be converted at the Conversion Rate as of such date in accordance with Section 7 or redeemed by the Company in accordance with Section 7. The Company shall not issue any fraction of a share of Common Stock or of a Preferred Share (other than tenths of a Preferred Share) upon any conversion. If the issuance would result in the issuance of a fraction of a share of Common Stock or of a Preferred Share (other than tenths of a Preferred Share), the Company shall round such fraction of a share of Common Stock or of a Preferred Share up or down to the nearest whole share, or one-tenth of a whole share,

respectively.

(b) Limitations on Number of Conversion Shares.

Notwithstanding anything to the contrary contained herein, the Company shall not be obligated to issue any shares of Common Stock upon conversion of the Debentures if the issuance of such shares of Common Stock would exceed that number of shares of Common Stock which the Company may issue upon conversion of the Debentures without breaching the Company's obligations under the rules or regulations of the Principal Market, or the market or exchange where the Common Stock is then traded (the "Exchange Cap"), except that such limitation shall not apply in the event that the Company (i) obtains the approval of its stockholders as required by the applicable rules of the Principal Market (or any successor rule or regulation) for issuances of Common Stock in excess of such amount, or (ii) obtains either the NASD Approval or a written opinion from outside counsel to the Company that such stockholder approval is not required, which opinion shall be satisfactory in form and substance to the holders of not less than a majority (voting in their sole discretion) of the Outstanding Principal Amount of the Debentures. Until such approval or written opinion is obtained, no purchaser of Debentures pursuant to the Securities Purchase Agreement (the "Purchasers") shall be issued, upon conversion of Debentures, shares of Common Stock in an amount greater than the product of (x) the Exchange Cap amount multiplied by (y) a fraction, the numerator of which is the aggregate principal amount of Debentures issued to such Purchaser pursuant to the Securities Purchase Agreement and the denominator of which is the aggregate principal amount of all the Debentures issued to the Purchasers pursuant to the Securities Purchase Agreement (the "Cap Allocation Amount"). To the extent that, solely as a result of the Exchange Cap, the Company is not required to issue any number of shares of Common Stock that would otherwise be issuable upon conversion pursuant to the terms of the Debentures, then upon any conversion of the Debentures, the Company shall issue one-tenth of a Preferred Share for each share of Common Stock that would otherwise be issuable but for the Exchange Cap. In the event that any Purchaser shall sell or otherwise transfer any portion of the principal amount of such Purchaser's Debentures, the transferee shall be allocated a pro rata portion of such Purchaser's Cap Allocation Amount. In the event that any holder of Debentures shall convert all of such holder's Debentures into a number of shares of Common Stock which, in the aggregate, is less than such holder's Cap Allocation Amount, then the difference between such holder's Cap Allocation Amount and the number of shares of Common Stock actually issued to such holder shall be allocated to the respective Cap Allocation Amounts of the remaining holders of Debentures on a pro rata basis in proportion to the aggregate principal amount of the Debentures then held by each such holder.

(c) If this Debenture is converted in part, the remaining portion of this Debenture not so converted shall remain entitled to the conversion rights provided herein.

(d) Conversion Rate for Holder Converted Shares. The Outstanding Principal Amount of this Debenture that is converted into shares of Common Stock and Preferred

Shares (or fractional interests therein) (to the extent that Preferred Shares are issuable in lieu of Common Stock) shall be convertible into the number of shares of Common Stock and fractional interests in Preferred Shares (measured in tenths) which results from application of the following formula:

P

Conversion Price

P = Outstanding Principal Amount of this Debenture submitted for conversion including interest as provided above in the introduction to this Debenture.

The number of shares of Common Stock and Preferred Shares (to the extent that Preferred Shares are issuable in lieu of Common Stock) into which this Debenture may be converted pursuant to the foregoing formula is hereafter referred to as the "Conversion Rate."

(e) Mechanics of Conversion. The conversion of this Debenture shall be conducted in the following manner:

(i) Holder's Delivery Requirements. To convert this Debenture (in whole or in part) into shares of Common Stock and Preferred Shares and fractional interests therein (to the extent that Preferred Shares are issuable in lieu of Common Stock) on any date, the Holder shall (A) transmit by facsimile (or otherwise deliver), on or prior to 11:59 p.m., New York City Time, on such date, a copy of a fully completed notice of conversion executed by the Holder in the form attached hereto as Exhibit I (the "Conversion Notice") to the Company and the Company's designated transfer agent (the "Transfer Agent") and (B) if required by Section 8, surrender to a common carrier for delivery to the Company as soon as practicable following such date this Debenture.

(ii) Company's Response. Upon receipt by the Company of copy of a Conversion Notice, the Company shall (A) as soon as practicable, but in any event within one (1) Business Day, send, via facsimile, a confirmation of receipt of such Conversion Notice to such holder and the Transfer Agent, which confirmation shall constitute an instruction to the Transfer Agent to process such Conversion Notice in accordance with the terms herein and (B) then on or before the second (2nd) Business Day following the date of receipt by the Company of such Conversion Notice (the "Share Delivery Date"), (x) issue and deliver to the address as specified in the Conversion Notice, a certificate, registered in the name of the Holder or its designee, for

the number of shares of Common Stock and Preferred Shares and fractional interests therein (to the extent that Preferred Shares are issuable in lieu of Common Stock) to which the Holder shall be entitled, or, solely with respect to shares of Common Stock, (y) provided the Transfer Agent is participating in The Depository Trust Company ("DTC") Fast Automated Securities Transfer Program, upon the request of the holder, credit such aggregate number of shares of Common Stock to which the holder shall be entitled to the holder's or its designee's balance account with DTC through its Deposit Withdrawal Agent Commission system. If the specified principal amount submitted for conversion, as may be required pursuant to Section 8, is less than the then Outstanding Principal Amount of this Debenture, then the Company shall, as soon as practicable and in no event later than three Business Days after receipt of the Debenture (the "Debenture Delivery Date") and at its own expense, issue and

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deliver to the holder a new Debenture representing the Outstanding Principal Amount not converted. The effective date of conversion (the "Conversion Date") shall be deemed to be the date on which the Company receives by facsimile the Conversion Notice, and the person or persons entitled to receive the shares of Common Stock and Preferred Shares and fractional interests therein (to the extent that Preferred Shares are issuable in lieu of Common Stock) issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock or Preferred Shares on such date.

(iii) Dispute Resolution. In the case of a dispute as to the determination of the Closing Sale Price or the arithmetic calculation of the Conversion Rate, the Company shall instruct the Transfer Agent to issue to the Holder the number of shares of Common Stock and Preferred Shares (to the extent that Preferred Shares are issuable in lieu of Common Stock) that is not disputed and shall transmit an explanation of the disputed determinations or arithmetic calculations to the Holder via facsimile within one (1) Business Day of receipt of the Holder's Conversion Notice or other date of determination. If the Holder and the Company are unable to agree upon the determination of the Closing Sale Price or arithmetic calculation of the Conversion Rate within two (2) Business Days of such disputed determination or arithmetic calculation being transmitted to the Holder, then the Company shall within one (1) Business Day submit via facsimile (A) the disputed determination of the Closing Sale Price to an independent, reputable investment bank selected by the Company and approved by the holders of at least two-thirds of the Outstanding Principal Amount of the Debentures then outstanding or (B) the disputed arithmetic calculation of the Conversion Rate to the Company's independent, outside accountant. The Company shall cause the investment bank or the accountant, as the case may be, to perform the determinations or

calculations and notify the Company and the holders of the results no later than two (2) Business Days from the time it receives the disputed determinations or calculations. Such investment bank's or accountant's determination or calculation, as the case may be, shall be binding upon all parties absent manifest error. Such investment bank or accountant shall be engaged solely by the Company and all fees and expenses of such investment bank or accountant shall be paid by the Company.

(iv) Company's Failure to Timely Convert.

(A) Cash Damages. If (x) within five (5) Business Days after the Company's receipt of the facsimile copy of a Conversion Notice the Company has failed to issue and deliver a certificate to a Holder or credit the Holder's balance account for the number of shares of Common Stock and Preferred Shares and fractional interests therein (to the extent that Preferred Shares are issuable in lieu of Common Stock) to which the Holder is entitled upon the Holder's conversion of this Debenture or (y) within five (5) Business Days of the Company's receipt of this Debenture the Company has failed to issue and deliver a Debenture representing the Outstanding Principal Amount of this Debenture not so converted, then in addition to all other available remedies which such Holder may pursue hereunder and under the Securities Purchase Agreement (including indemnification pursuant to Section 8 thereof), the Company shall pay additional damages to such Holder for each day after the Share Delivery Date that such conversion is not timely effected and/or each day after the Debenture Delivery Date that this Debenture is not delivered in an amount equal to 0.5% of the product of (I) the sum of the number of shares of Common Stock and Preferred Shares (to the extent, including fractional interests, that Preferred Shares are issuable in lieu of Common Stock) not issued to the Holder on or prior to the Share Delivery Date and to which such Holder is entitled as set forth in the

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applicable Conversion Notice and, in the event the Company has failed to deliver a Debenture to the Holder on or prior to the Debenture Delivery Date, the number of shares of Common Stock and Preferred Shares (to the extent, including fractional interests, that Preferred Shares are issuable in lieu of Common Stock) issuable upon conversion of this Debenture as of the Debenture Delivery Date and (II) the Closing Sale Price of Common Stock on the Share Delivery Date, in the case of the failure to deliver Common Stock, or the Debenture Delivery Date, in the case of failure to deliver a Debenture. If the Company fails to pay the additional damages set forth in this Section 6(d)(iv)(A) within five (5) Business Days of the date incurred, then the Holder shall have the right at any time, so long as the Company continues to fail to make such payments, to require

the Company, upon written notice, to immediately issue, in lieu of such cash damages, the number of shares of Common Stock and Preferred Shares (to the extent, including fractional interests, that Preferred Shares are issuable in lieu of Common Stock) equal to the quotient of (X) the aggregate amount of the damages payments described herein divided by (Y) the Conversion Price in effect on such Conversion Date as specified by the Holder in the Conversion Notice.

(B) Void Conversion Notice; Adjustment of Standard Conversion Price. If for any reason a holder has not received all of the shares of Common Stock and Preferred Shares (to the extent, including fractional interests, that Preferred Shares are issuable in lieu of Common Stock) to which such holder is entitled prior to the tenth (10th) Business Day after the Share Delivery Date with respect to a conversion of this Debenture, then the Holder upon written notice to the Company, with a copy to the Transfer Agent, may void its Conversion Notice; provided that the voiding of the Holder's Conversion Notice shall not effect the Company's obligations to make any payments which have accrued prior to the date of such notice. Thereafter, the Standard Conversion Price shall be adjusted to the lesser of (x) the Standard Conversion Price as in effect on the date on which the Holder voided the Conversion Notice and (y) the lowest Weighted Average Price of the Common Stock during the period beginning on the applicable Conversion Date and ending on the date the Holder voided the Conversion Notice, subject to further adjustment as provided in this Debenture.

(C) Conversion Failure. If for any reason the Holder has not received all of the shares of Common Stock and Preferred Shares (to the extent, including fractional interests, that Preferred Shares are issuable in lieu of Common Stock) to which the Holder is entitled prior to the tenth (10th) Business Day after the Share Delivery Date with respect to a conversion of this Debenture (a "Conversion Failure"), then the Holder, upon written notice to the Company, may require that the Company redeem the entire Outstanding Principal Amount of all Debentures held by the Holder in an amount equal to 125% of such Outstanding Principal Amount, including the specified principal amount previously submitted for conversion and with respect to which the Company has not delivered shares of Common Stock and Preferred Shares (to the extent, including fractional interests, that Preferred Shares are issuable in lieu of Common Stock), in accordance with Section 6.

(D) Pro Rata Conversion. Subject to Section 6(b), in the event the Company receives a Conversion Notice from more than one holder of Debentures for the same Conversion Date and the Company can convert some, but not all, of such Debentures, the Company shall convert from each holder of Debentures electing to have Debentures converted at such time a pro rata amount of such Holder's Debentures submitted for conversion based on the Outstanding Principal Amount of Debentures submitted for conversion

on such date by such holder relative to the Outstanding Principal Amount of all Debentures submitted for conversion on such date.

(v) In addition to any other rights available to the Holder, if the Company fails to deliver to the Holder a certificate or certificates representing the Common Stock pursuant to Section 6(e) (ii) by the fifth trading day after the date of exercise, and if after such fifth trading day the Holder purchases (in an open market transaction or otherwise) shares of Common Stock to deliver in satisfaction of a sale by the Holder of the Common Stock which the Holder anticipated receiving upon such exercise (a "Buy-In"), then the Company shall, to the extent such a payment is not then prohibited or restricted under the Debenture, pay (1) in cash to the Holder the amount by which (x) the Holder's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased exceeds (y) the amount obtained by multiplying (A) the number of shares of Common Stock that the Company was required to deliver pursuant to Section 6(e) (ii) to deliver to the Holder in connection with the exercise at issue by (B) the per share market value at the time of the obligation giving rise to such purchase obligation and (2) deliver to the Holder the number of shares of Common Stock that would have been issued had the Company timely complied with its exercise and delivery obligations under Section 6(e) (ii). For example, if the Holder purchases Common Stock having a total purchase price of \$11,000 to cover a Buy-In with respect to an attempted exercise of shares of Common Stock with a market price on the date of exercise totaled \$10,000, under clause (A) of the immediately preceding sentence the Company shall be required to pay the Holder \$1,000. The Holder shall provide the Company written notice indicating the amounts payable to the Holder in respect of the Buy-In.

7. Mandatory Redemption or Conversion at Maturity.

(a) If this Debenture remains outstanding on the Mandatory Conversion or Redemption Date, the Company shall either (i) convert the Outstanding Principal Amount of this Debenture at the Conversion Rate as of the Maturity Date without the Holder being required to give a Conversion Notice on such Maturity Date (a "Maturity Date Mandatory Conversion") provided that the Common Stock can be issued to Holders without violating the rules of the Principal Market, or (ii) redeem the Outstanding Principal Amount of this Debenture for an amount in cash (the "Maturity Date Redemption Price") equal to 100% of the portion of the Outstanding Principal Amount of the Debenture for which the redemption option has been elected plus accrued interest on the Mandatory Conversion or Redemption Date (a "Maturity Date Mandatory Redemption"). On or prior to the date which is 125 trading days prior to the Mandatory Conversion or Redemption Date, the Company shall deliver written notice to the Holder (a "Maturity Date Election Notice"), which Maturity Date Election Notice shall state (i) the portion of the Outstanding Principal Amount of this Debenture that the Company has elected to convert on the Maturity Date pursuant to a Maturity Date Mandatory Conversion and (ii) the portion of the Outstanding Principal Amount of this Debenture that the Company has elected to

redeem on the Mandatory Conversion or Redemption Date pursuant to a Maturity Date Mandatory Redemption. If the Company has elected more than one of the Maturity Date Mandatory Conversion and Maturity Date Mandatory Redemption with respect to the Maturity Date, then the Company shall redeem the Outstanding Principal Amount of the Debenture and/or convert the Outstanding Principal Amount of the Debenture pro rata from the holders of Debentures then outstanding (based on the principal amount of the Debentures issued to the Holder on the Issuance Date relative to the aggregate principal amount of the Debentures issued

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to all holders on the Issuance Date (such relative amount being referred to herein as each such holder's "Maturity Allocation Percentage")). In the event that any initial holder of Debentures shall sell or otherwise transfer any portion of the principal amount of such holder's Debentures, then the transferee shall be allocated a pro rata portion of such holder's Maturity Allocation Percentage. If the Company fails to deliver to the Holder a Maturity Date Election Notice at least 30 trading days prior to the Maturity Date, then the Company shall be deemed to have elected a Maturity Date Mandatory Conversion.

(b) If the Company elects a Maturity Date Mandatory Redemption, then on the Maturity Date the Company shall pay to the Holder, by wire transfer of immediately available funds to an account designated in writing by such holder, an amount selected for redemption pursuant to this Section 7 equal to the Maturity Date Redemption Price. On or before the thirtieth (30th) trading day but not prior to the sixtieth (60th) trading day immediately preceding the Maturity Date (the "Test Date"), the Company must demonstrate to the satisfaction of holders of not less than two-thirds of the then Outstanding Principal Amount of the Debentures then outstanding that the Company has or will have sufficient cash or financing to allow the Company to pay the Maturity Date Redemption Price on the Mandatory Conversion or Redemption Date (the "Financial Ability Test"). In the event that the Company cannot satisfy the Financial Ability Test, then the Company shall be deemed to have elected as of the Test Date a Maturity Date Mandatory Conversion at the Financial Ability Failure Maturity Conversion Price as to the Outstanding Principal Amount of all Debentures for which the Company was unable to satisfy the Financial Ability Test as of the Test Date.

(c) If the Company elects, or is deemed to have elected pursuant to clause (b), a Maturity Date Mandatory Redemption and fails to redeem the entire portion of the Outstanding Principal Amount selected, or deemed to have been selected pursuant to clause (b), for redemption which was outstanding on the Mandatory Conversion or Redemption Date by payment of the

Maturity Date Redemption Price, then in addition to any remedy the Holder may have under this Debenture, the Securities Purchase Agreement and the Registration Rights Agreement, (i) the applicable Maturity Date Redemption Price payable in respect of such unredeemed Outstanding Principal Amount shall bear interest at the rate of 1.5% per month, prorated for partial months, until paid in full, and (ii) the Holder shall have the option to require the Company to convert any or all of the Outstanding Principal Amount that the Company elected to redeem under this Section 7 and for which the Maturity Date Redemption Price (together with any interest thereon) has not been paid into shares of Common Stock and Preferred Shares (to the extent, including fractional interests, that Preferred Shares are issuable in lieu of Common Stock) equal to the number which results from dividing the Maturity Date Redemption Price (together with any interest thereon) by the Default Conversion Price.

(d) If the Company has elected or is deemed to have elected a Maturity Date Mandatory Conversion then that portion of the Outstanding Principal Amount with respect to which the Company has elected a Maturity Date Mandatory Conversion which remains outstanding on the Maturity Date shall be converted at the Conversion Rate on such Maturity Date as if the Holder had delivered a Conversion Notice with respect to such Outstanding Principal Amount on the Maturity Date. Promptly following the Maturity Date, the Holder shall surrender this Debenture to the Company or the Transfer Agent. If the Company has elected, or is deemed to have elected pursuant to this Section 7, a Maturity Date Mandatory Conversion and the Holder has not received all of the shares of Common Stock and Preferred Shares (to the

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extent, including fractional interests, that Preferred Shares are issuable in lieu of Common Stock) to which the Holder is entitled or the Company has failed to pay the Maturity Date Redemption Price in a timely manner as described above, then the Maturity Date shall be automatically extended until the date the Holder receives such shares of Common Stock and Preferred Shares (to the extent, including fractional interests, that Preferred Shares are issuable in lieu of Common Stock) or Maturity Date Redemption Price and shall be further extended for as long as (i) the conversion of this Debenture would violate the provisions of Section 17, (ii) a Triggering Event or an Event of Default shall have occurred and be continuing, or (iii) an event shall have occurred and be continuing which with the passage of time and the failure to cure would result in a Triggering Event or an Event of Default. Notwithstanding anything to the contrary in this Section 7, the Holder may convert such Outstanding Principal Amount (including the portion of the Outstanding Principal Amount with respect to which the Company has elected a Maturity Date Mandatory Conversion or has elected a Maturity Date Mandatory Redemption), but subject to Section 6(b) and

Section 17, into shares of Common Stock and Preferred Shares (to the extent, including fractional interests, that Preferred Shares are issuable in lieu of Common Stock) pursuant to Section 6 on or prior to the date immediately preceding the Maturity Date. In the event the Holder delivers a Conversion Notice to the Company after the Holder's receipt of a Maturity Date Election Notice with respect to the Outstanding Principal Amount covered by such Conversion Notice and the Company has elected in such Maturity Date Election Notice more than one of the Maturity Date Mandatory Conversion and Maturity Date Mandatory Redemption with respect to such Outstanding Principal Amount, then the Outstanding Principal Amount shall be reduced, first, from the portion of the Outstanding Principal Amount, if any, designated by the Company as being subject to a Maturity Date Mandatory Conversion in the Maturity Date Election Notice, and then from the portion of the Outstanding Principal Amount designated by the Company as being subject to a Maturity Date Mandatory Redemption in such Maturity Date Election Notice.

8. Book-Entry. Notwithstanding anything to the contrary set forth herein, upon conversion of this Debenture in accordance with the terms hereof, the Holder shall not be required to physically surrender the Debenture to the Company unless the entire Outstanding Principal Amount is being converted. The Holder and the Company shall maintain records showing the principal amount so converted and the dates of such conversions or shall use such other method, reasonably satisfactory to the Holder and the Company, so as not to require physical surrender of the Debenture upon each such conversion. In the event of any dispute or discrepancy, such records of the Company establishing the then Outstanding Principal Amount shall be controlling and determinative in the absence of manifest error. Notwithstanding the foregoing, if the principal amount represented by the Debenture is converted as aforesaid, the Holder may not transfer the Debenture unless the Holder first physically surrenders the Debenture to the Company, whereupon the Company will forthwith issue and deliver upon the order of the Holder a new Debenture of like tenor, registered as the Holder may request, representing in the aggregate the Outstanding Principal Amount represented by such Debenture. The Holder and any assignee, by acceptance of a Debenture, acknowledge and agree that, by reason of the provisions of this paragraph, following conversion of any portion of the Debenture, the Outstanding Principal Amount of the Debenture may be less than the amount stated on the face hereof. Each Debenture shall bear the following legend:

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THE OUTSTANDING PRINCIPAL AMOUNT REPRESENTED BY THIS DEBENTURE MAY BE LESS THAN THE AMOUNT STATED ON THE FACE HEREOF PURSUANT TO SECTION 8 HEREIN.

9. Conversion at the Company's Election. On any day after the first anniversary of the Closing Date (the "Conversion Election Date"), the Company shall have the right, in its sole discretion, to require that some or all of the outstanding Debentures be converted (the "Company's Conversion Election") at the applicable Conversion Rate; provided that the Conditions to Conversion At The Company's Election (as set forth below) are satisfied as of the Company's Election Conversion Date; provided further, however, that the Company may not deliver more than one Company's Conversion Election Notice. The Company shall exercise its right to Company's Conversion Election by providing each holder of Debentures written notice ("Company's Conversion Election Notice") by facsimile and overnight courier on or after the Conversion Election Date, subject to the provisions and the conditions of this Section 9. The date on which each of such holders of the Debentures actually receives the Company's Conversion Election Notice is referred to herein as the "Company's Conversion Election Notice Date." If the Company elects to require conversion of some, but not all, of the Debentures then outstanding, the Company shall require conversion of an amount from each holder of the Debentures equal to the product of (a) the total Outstanding Principal Amount of the Debentures which the Company has elected to convert multiplied by (b) the quotient of the aggregate Outstanding Principal Amount of the Debentures held by such holder divided by the aggregate Outstanding Principal Amount of the Debentures held by all holders, in each case, as of the Conversion Election Date (such amount with respect to each holder of such Debentures being referred to herein as its "Pro Rata Conversion Amount"). In the event that any initial holder of the Debentures shall sell or otherwise transfer any of such holder's Debentures, the transferee shall be allocated a pro rata portion of such holder's Pro Rata Conversion Amount. The Company's Conversion Election Notice shall indicate (i) the aggregate Outstanding Principal Amount of the Debentures the Company has selected for conversion, (ii) the date selected by the Company for conversion (the "Company's Election Conversion Date"), which date shall be not less than 20 Business Days or more than 60 Business Days after the Company's Conversion Election Notice Date, and (iii) each holder's Pro Rata Conversion Amount. Subject to the satisfaction of all the conditions of this Section 9, on the Company's Election Conversion Date each holder of Debentures selected for conversion will be deemed to have submitted a Conversion Notice in accordance with Section 6 for a principal amount equal to such holder's Pro Rata Conversion Amount. "Conditions To Conversion At the Company's Election" means the following conditions: (i) on each day (other than days during an Allowable Grace Period (as defined in the Registration Rights Agreement)) during the period beginning on and including the date the Registration Statement is declared effective by the SEC and ending on and including the Company's Conversion Election Notice Date, the Registration Statement (as defined in the Registration Rights Agreement) which includes the Registrable Securities relating to the Debentures selected for conversion shall be effective and available for the sale of at least all the Registrable Securities; (ii) on each day during the period beginning on the date which is 30 trading days prior to the date of the Company's Conversion Election Notice Date and ending on and including the Company's Election Conversion Date, the Registration Statement shall be effective and available for the sale of at least all of the Registrable Securities required to be included in such Registration Statement and there

shall not have been any Grace Periods (as defined in the Registration Rights Agreement); (iii) on each day during the period beginning on

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the Issuance Date and ending on and including the Company's Election Conversion Date, the Common Stock is designated for quotation on the NASDAQ or The New York Stock Exchange, Inc. ("NYSE") and shall not have been suspended from trading on such market or exchange (other than suspensions of not more than one day and occurring prior to the Company's Conversion Election Notice Date due to business announcements by the Company) nor shall delisting or suspension by such market or exchange been threatened or pending either (A) in writing by such market or exchange or (B) by falling below the minimum listing maintenance requirements of such market or exchange; (iv) during the period beginning on the Issuance Date and ending on and including the Company's Election Conversion Date, there shall not have occurred (A) an event constituting a Triggering Event or an Event of Default, (B) an event that with the passage of time and without being cured would constitute a Triggering Event or an Event of Default, or (C) the public announcement of a pending, proposed or intended Change of Control, unless such pending, proposed or intended Change of Control has been terminated, abandoned or consummated and the Company has publicly announced such termination, abandonment or consummation of such Change of Control; (v) the aggregate Outstanding Principal Amount of the Debentures selected for conversion by the Company as reflected in the Company's Conversion Election Notice is at least \$1,000,000 or, if the then which remain Outstanding Principal Amount is less than \$1,000,000, then the Outstanding Principal Amount of the Debentures; (vi) during the period beginning on the Closing Date and ending on and including the Company's Election Conversion Date, the Company shall have delivered Conversion Shares upon conversion of the Debentures and Warrant Shares upon exercise of the Warrants to the holders on a timely basis as set forth in Section 6 hereof and Sections 2(a) and 2(b) of the Warrants, respectively; (vii) unless the NASD Approval has been obtained on or prior to the NASD Deadline, on the earlier to occur of (A) the Stockholder Meeting Deadline and (B) the date on which the Company holds its next meeting of stockholders, the Company shall have received the Shareholder Approval, (viii) the Company shall not have failed to timely make any payments within five (5) Business Days of when such payment is due, whether as interest or penalty payments, pursuant to the Debentures, the Securities Purchase Agreement, the Registration Rights Agreement or the Warrants, including, but not limited to, Interest Payments, Default Interest and cash payments due under the provisions of the Securities Purchase Agreement, the Registration Rights Agreement, and the Warrants; and (ix) the Closing Bid Price of the Common Stock for each of the twenty (20) consecutive trading days immediately prior to the Company's Conversion Election Notice (as defined below) is at or above \$12.6175 (subject to adjustment for stock splits, stock

dividends, recapitalizations, combinations, reverse stock splits or other similar events). Notwithstanding the foregoing, any holder of Debentures may convert such shares (including Debentures selected for conversion hereunder) into Common Stock pursuant to Section 6 on or prior to the date immediately preceding the Company's Election Conversion Date.

10. Adjustments to Conversion Price. The Conversion Price will be subject to adjustment from time to time as provided in this Section 10:

(a) Adjustment of Standard Conversion Price upon Issuance of Common Stock. If and whenever on or after the Issuance Date and until February 1, 2003 (the "Initial Adjustment

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Termination Date"), the Company issues or sells, or in accordance with this Section 10(a) is deemed to have issued or sold, any shares of Common Stock (but excluding shares of Common Stock (collectively, the "Excluded Securities"): (i) deemed to have been issued by the Company in connection with an Approved Stock Plan; (ii) deemed to have been issued upon issuance of the Debentures or issued upon conversion of the Debentures; (iii) issued upon exercise of the Warrants; (iv) issued as Interest Payment Shares; (v) issued upon exercise of Options or Convertible Securities which are outstanding on the date immediately preceding the Issuance Date, provided that such issuance of shares of Common Stock upon exercise of such Options or Convertible Securities is made pursuant to the terms of such Options or Convertible Securities in effect on the date immediately preceding the Issuance Date and such Options or Convertible Securities are not amended after the date immediately preceding the Issuance Date; (vi) issued or deemed to have been issued by the Company upon the exchange of the Series A Preferred Stock (the "Subsidiary Preferred Stock") of Sorrento Networks, Inc., a Delaware corporation not in excess of 19.99% of the issued and outstanding Common Stock as of the Issuance Date; (vii) issued to any bank or equipment lessor in transactions primarily not for equity financing purposes provided that the aggregate number of shares issued or deemed issued in any such transaction does not exceed the product of (A) 20% multiplied by (B) the initial principal amount of the loans in such transaction divided by the Closing Bid Price of the Common Stock on the trading day immediately prior to the date of such issuance or deemed issuance and (viii) issued pursuant to a Strategic Financing) for a consideration per share (the "New Securities Issuance Price") less than a price equal to the greater of (I) the Standard Conversion Price in effect immediately prior to such time and (II) the Closing Bid Price of the Common Stock on the trading day immediately preceding such issuance date (the greater of (I) and (II), the "Applicable Price"), then immediately after such issue or sale:

- (i) if the NASD Approval has been obtained prior to the NASD Deadline, then to the extent that the New Securities Issuance Price is less than the Standard Conversion Price then in effect, the Standard Conversion Price then in effect shall be reduced to an amount equal to the New Securities Issuance Price; provided, however, that to the extent that as a result of such adjustment and all previous adjustments pursuant to this Section 10, the Company would be required to issue an aggregate number of additional shares of Common Stock in respect of the Debentures and the Warrants (excluding from such calculation all shares issuable pursuant to the terms of the Debentures and Warrants as of the Issuance Date) in excess of the Maximum Share Amount and the Company has not received the Shareholder Approval, then for each share of Common Stock in excess of the Maximum Share Amount that the Company would otherwise be required to issue upon conversion of the Debentures, it shall issue upon conversion one-tenth of one Preferred Share; and
- (ii) if the NASD Approval has not been obtained prior to the NASD Deadline, then to the extent that the New Securities Issuance Price is

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less than the Standard Conversion Price then in effect, (A) if the Company has obtained the Shareholder Approval, the Standard Conversion Price then in effect shall be reduced to an amount equal to the New Securities Issuance Price and (B) if the Company has not obtained the Shareholder Approval, the Company (I) shall determine the number (the "Dilution Adjustment Number") of additional shares of Common Stock that it would be required to issue upon conversion of the Debentures if the Standard Conversion Price were to be reduced to an amount equal to the New Securities Issuance Price (treating solely for such purpose each one-tenth interest in each Preferred Share then issuable upon conversion as if it were a share of Common Stock) and (II) shall increase the number of Preferred Shares issuable upon conversion of the Debentures by an amount equal to the relevant (x) Dilution Adjustment Number, (y) divided by 10.

From and after the Initial Adjustment Termination Date, if the Company issues or sells, or in accordance with this Section 10 is deemed to have issued or sold, any shares of Common Stock (other than any Excluded Securities) at a

New Securities Issuance Price less than the Closing Bid Price of the Common Stock on the trading day immediately prior to such issue or sale, then immediately after such issue or sale:

- (i) if the NASD Approval has been obtained prior to the NASD Deadline, the Standard Conversion Price then in effect shall be reduced to an amount equal to (A) the Standard Conversion Price in effect immediately prior to such issue or sale (B) multiplied by (1) a fraction (the "Adjustment Fraction") the numerator of which is equal to the sum of (I) the product derived by multiplying the Closing Bid Price by the number of shares of Common Stock Deemed Outstanding immediately prior to such issue or sale plus (II) the consideration, if any, received by the Company upon such issue or sale, and (2) the denominator of which is equal to the product derived by multiplying (I) such Closing Bid Price by (II) the number of shares of Common Stock Deemed Outstanding immediately after such issue or sale; provided, however, that to the extent that as a result of such adjustment and all previous adjustments pursuant to this Section 10, the Company would be required to issue an aggregate number of additional shares of Common Stock in respect of the Debentures and the Warrants (excluding from such calculation all shares issuable pursuant to the terms of the Debentures and Warrants as of the Issuance Date) in excess of the Maximum Share Amount and the Company has not received the Shareholder Approval, then for each share of Common Stock in excess of the Maximum Share Amount that the Company would otherwise be required to issue upon conversion of the Debentures, it shall issue upon conversion one-tenth of one Preferred Share; and
- (ii) if the NASD Approval has not been obtained prior to the NASD Deadline, then (A) if the Company has obtained the Shareholder Approval, the Standard Conversion Price then in effect shall be reduced to an amount equal to (I) the Standard Conversion Price in effect immediately prior to

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such issue or sale (II) multiplied by the Adjustment Fraction, and (B) if the Company has not obtained the Shareholder Approval, the Company (I) shall determine the number (the "Weighted Average Dilution Adjustment Number") of additional shares of Common Stock that it would be required to issue upon

conversion of the Debentures if the Standard Conversion Price were to be reduced to an amount equal to (x) the Standard Conversion Price in effect immediately prior to such issue or sale (y) multiplied by the Adjustment Fraction and (B) shall increase the number of Preferred Shares issuable upon conversion of the Debentures by an amount equal to (I) the relevant Weighted Average Dilution Adjustment Number (II) divided by 10.

For purposes of determining the adjusted Standard Conversion Price under this Section 10, the following shall be applicable:

(i) Issuance of Options. If the Company in any manner grants or sells any Options and the lowest price per share for which one share of Common Stock is issuable upon the exercise of any such Option or upon conversion, exchange or exercise of any Convertible Securities issuable upon exercise of such Option is less than the Applicable Price or the Closing Bid Price, as the case may be, then such share of Common Stock shall be deemed to be outstanding and to have been issued and sold by the Company at the time of the granting or sale of such Option for such price per share. For purposes of this Section 10(a)(i), the "lowest price per share for which one share of Common Stock is issuable upon the exercise of any such Option or upon conversion, exchange or exercise of any Convertible Securities issuable upon exercise of such Option" shall be equal to the sum of the lowest amounts of consideration (if any) received or receivable by the Company with respect to any one share of Common Stock upon granting or sale of the Option, upon exercise of the Option and upon conversion, exchange or exercise of any Convertible Security issuable upon exercise of such Option. No further adjustment of the Standard Conversion Price shall be made upon the actual issuance of such Common Stock or of such Convertible Securities upon the exercise of such Options or upon the actual issuance of such Common Stock upon conversion, exchange or exercise of such Convertible Securities.

(ii) Issuance of Convertible Securities. If the Company in any manner issues or sells any Convertible Securities and the lowest price per share for which one share of Common Stock is issuable upon such conversion, exchange or exercise thereof is less than the Applicable Price or the Closing Bid Price, as the case may be, then such share of Common Stock shall be deemed to be outstanding and to have been issued and sold by the Company at the time of the issuance or sale of such Convertible Securities for such price per share. For the purposes of this Section 10(a)(ii), the "lowest price per share for which one share of Common Stock is issuable upon such conversion, exchange or exercise" shall be equal to the sum of the lowest amounts of consideration (if any) received or receivable by the Company with respect to any one share of Common Stock upon the issuance or sale of the Convertible Security and upon the conversion, exchange or exercise of such Convertible Security. No further adjustment of the Standard Conversion Price shall be made upon the actual issuance of such Common Stock upon conversion, exchange or exercise of such Convertible Securities, and if any such issue or sale of such Convertible Securities is made upon exercise of any Options for which adjustment of the Standard Conversion Price had been or are to be made pursuant to other

provisions of this Section 10(a), no further adjustment of the Standard Conversion Price shall be made by reason of such issue or sale.

(iii) Change in Option Price or Rate of Conversion. If the purchase or exercise price provided for in any Options, the additional consideration, if any, payable upon the issue, conversion, exchange or exercise of any Convertible Securities, or the rate at which any Convertible Securities are convertible into or exchangeable or exercisable for Common Stock changes at any time, the Standard Conversion Price in effect at the time of such change shall be adjusted to the Standard Conversion Price which would have been in effect at such time had such Options or Convertible Securities provided for such changed purchase price, additional consideration or changed conversion rate, as the case may be, at the time initially granted, issued or sold. For purposes of this Section 10(a) (iii), if the terms of any Option or Convertible Security that was outstanding as of the date of issuance of the Debentures are changed in the manner described in the immediately preceding sentence, then such Option or Convertible Security and the Common Stock deemed issuable upon exercise, conversion or exchange thereof shall be deemed to have been issued as of the date of such change. No adjustment shall be made if such adjustment would result in an increase of the Standard Conversion Price then in effect.

(iv) Calculation of Consideration Received. In case any Option is issued in connection with the issue or sale of other securities of the Company, together comprising one integrated transaction in which no specific consideration is allocated to such Options by the parties thereto, the Options will be deemed to have been issued for a consideration of \$0.01. If any Common Stock, Options or Convertible Securities are issued or sold or deemed to have been issued or sold for cash, the consideration received therefor will be deemed to be the gross amount received by the Company therefor. If any Common Stock, Options or Convertible Securities are issued or sold for a consideration other than cash, the amount of the consideration other than cash received by the Company will be the fair value of such consideration, except where such consideration consists of marketable securities, in which case the amount of consideration received by the Company will be the arithmetic average of the Closing Sale Prices of such securities during the ten (10) consecutive trading days ending on the date of receipt of such securities. The fair value of any consideration other than cash or securities will be determined jointly by the Company and the holders of at least two-thirds of the Outstanding Principal Amount of the Debentures then outstanding. If such parties are unable to reach agreement within ten (10) days after the occurrence of an event requiring valuation (the "Valuation Event"), the fair value of such consideration will be

determined within five (5) Business Days after the tenth (10th) day following the Valuation Event by an independent, reputable appraiser selected by the Company and the holders of at least two-thirds of the Outstanding Principal Amount of the Debentures then outstanding. The determination of such appraiser shall be deemed binding upon all parties absent manifest error and the fees and expenses of such appraiser shall be borne by the Company.

(v) Record Date. If the Company takes a record of the holders of Common Stock for the purpose of entitling them (A) to receive a dividend or other distribution payable in Common Stock, Options or Convertible Securities or (B) to subscribe for or purchase Common Stock, Options or Convertible Securities, then such record date will be deemed to be the date of the issue or sale of the shares of Common Stock deemed to have been

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issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be.

(b) Adjustment of Standard Conversion Price upon Subdivision or Combination of Common Stock. If the Company at any time subdivides (by any stock split, stock dividend, recapitalization or otherwise) its outstanding shares of Common Stock into a greater number of shares, the Standard Conversion Price in effect immediately prior to such subdivision will be proportionately reduced. If the Company at any time combines (by combination, reverse stock split or otherwise) its outstanding shares of Common Stock into a smaller number of shares and the Standard Conversion Price in effect immediately prior to such combination will be proportionately increased.

(c) Holder's Right of Alternative Conversion Price Following Issuance of Convertible Securities. If the Company in any manner issues or sells any Options or Convertible Securities after the Issuance Date that are convertible into or exchangeable or exercisable for Common Stock at a price which varies or may vary with the market price of the Common Stock, including by way of one or more reset(s) to a fixed price (each of the formulations for such variable price being herein referred to as, the "Variable Price"), the Company shall provide written notice thereof via facsimile and overnight courier to the Holder (the "Variable Notice") on the date of issuance of such Convertible Securities or Options. From and after the date the Company issues any such Convertible Securities or Options with a Variable Price, the Holder shall have the right, but not the obligation, in its sole discretion to substitute the Variable Price for the Conversion Price upon conversion of any Debentures held by it by designating in the Conversion Notice delivered upon conversion of such

Debentures that solely for purposes of such conversion the Holder is relying on the Variable Price rather than the Conversion Price then in effect. The Holder's election to rely on a Variable Price for a particular conversion of Debentures shall not obligate the Holder to rely on a Variable Price for any future conversions of Debentures.

(d) Other Events. If any event occurs of the type contemplated by the provisions of this Section 10 but not expressly provided for by such provisions (including, without limitation, the granting of stock appreciation rights, phantom stock rights or other rights with equity features), then the Company's Board of Directors will make an appropriate adjustment in the Conversion Price so as to protect the rights of the holders of the Debentures; provided that no such adjustment will increase the Conversion Price as otherwise determined pursuant to this Section 10.

(e) Notices.

(i) Immediately upon any adjustment of the Conversion Price pursuant to this Section 10, the Company will give written notice thereof to the Holder, setting forth in reasonable detail, and certifying, the calculation of such adjustment. In the case of a dispute as to the determination of such adjustment, then such dispute shall be resolved in accordance with the procedures set forth in Section 27.

(ii) The Company will give written notice to the Holder at least ten (10) Business Days prior to the date on which the Company closes its books or takes a record (A) with respect to any dividend or distribution upon the Common Stock, (B) with respect to any

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pro rata subscription offer to holders of Common Stock or (C) for determining rights to vote with respect to any Organic Change (as defined in Section 12(a)), dissolution or liquidation, provided that such information shall be made known to the public prior to or in conjunction with such notice being provided to such holder.

(iii) The Company will also give written notice to the Holder at least ten (10) Business Days prior to the date on which any Organic Change, dissolution or liquidation will take place, provided that such information shall be made known to the public prior to or in conjunction with such notice being provided to the Holder.

(f) Taxes. The Company shall pay any and all documentary,

stamp, transfer (but only in respect of the registered holder thereof) and other similar taxes that may be payable with respect to the issuance and delivery of Common Stock upon the conversion of Debentures.

11. Redemption at Option of Holders.

(a) Redemption Option Upon Triggering Event. In addition to all other rights of the Holder contained herein, after a Triggering Event (as defined below), the Holder shall have the right, at the Holder's option, to require the Company to redeem all or a portion of the Debentures held by the Holder at a price equal to the greater of (i) 125% of the Outstanding Principal Amount of the portion of the Debenture being redeemed plus accrued and unpaid interest thereon and (ii) the product of (A) the aggregate number of shares of Common Stock for which the Outstanding Principal Amount of the Debenture being redeemed would be converted into as of the date immediately preceding the Triggering Event without regard to any limitations to conversions contained herein multiplied by (B) the greater of (x) the Conversion Price and (y) the Closing Sale Price then most recently reported (the "Triggering Event Redemption Price").

(b) "Triggering Event". A "Triggering Event" shall be deemed to have occurred at such time as any of the following events:

(i) the failure of the Registration Statement to be declared effective by the SEC on or prior to the date that is 60 days after the Effectiveness Deadline (as defined in the Registration Rights Agreement);

(ii) while the Registration Statement is required to be maintained effective pursuant to the terms of the Registration Rights Agreement, the effectiveness of the Registration Statement lapses for any reason (including, without limitation, the issuance of a stop order) or is unavailable to the Holder for sale of all of the Registrable Securities (as defined in the Registration Rights Agreement) in accordance with the terms of the Registration Rights Agreement, and such lapse or unavailability continues for a period of five (5) consecutive trading days (excluding days during an Allowable Grace Period (as defined in the Registration Rights Agreement));

(iii) the suspension from trading or failure of the Common Stock to be listed on NASDAQ for a period of five (5) consecutive trading days or for more than an aggregate of ten (10) trading days in any 365-day period;

(iv) the Company's notice or the Transfer Agent's notice, at the Company's direction, to any holder of Debentures, including by way of public announcement, at any time, of its intention not to comply, as required, with a request for conversion of any Debentures into shares of Common Stock that is tendered in accordance with the provisions of the Debentures;

(v) a Conversion Failure; or

(vi) upon the Company's receipt of a Conversion Notice, the Company shall not be obligated to issue shares of Common Stock upon such Conversion due to the provisions of Section 6(b).

(c) Mechanics of Redemption at Option of Buyer Upon Triggering Event. Within two (2) Business Days after the occurrence of a Triggering Event, the Company shall deliver written notice thereof via facsimile and overnight courier ("Notice of Triggering Event") to each holder of Debentures. At any time after the earlier of a holder's receipt of a Notice of Triggering Event and such holder becoming aware of a Triggering Event, any holder of Debentures then outstanding may require the Company to redeem the Debentures held by it by delivering written notice thereof via facsimile and overnight courier ("Notice of Redemption at Option of Buyer") to the Company, which Notice of Redemption at Option of Buyer shall indicate the Outstanding Principal Amount of the Debenture that such holder is electing to redeem.

(d) Payment of Triggering Event Redemption Price. Upon the Company's receipt of a Notice(s) of Redemption at Option of Buyer from any holder of Debentures, the Company shall immediately notify each holder of Debentures by facsimile of the Company's receipt of such notice(s). The Company shall deliver on the fifth (5th) Business Day after the Company's receipt of the first Notice of Redemption at Option of Buyer the Triggering Event Redemption Price to all holders that deliver a Notice of Redemption at Option of Buyer prior to the fifth Business Day after the Company's receipt of the first Notice of Redemption at Option of Buyer; provided that, if required by Section 8, a holder's Debentures shall have been delivered to the Transfer Agent. If the Company is unable to make payment in respect of all of the Debentures for which the redemption option has been exercised, the Company shall (i) redeem a pro rata amount from each holder of Debentures based on the Outstanding Principal Amount of the Debentures submitted for redemption by such holder relative to the aggregate principal Amount of the Debentures submitted for redemption by all holders of Debentures and (ii) in addition to any remedy such holder of Debentures may have, pay to each holder interest at the rate of 1.5% per month (prorated for partial months) in respect of the Outstanding Principal Amount of each Debenture not redeemed in full pursuant to such holder's election until paid in full.

(e) Void Redemption. In the event that the Company does not pay the Triggering Event Redemption Price within the time period set forth in Section 11(d), at any time thereafter and until the Company pays such unpaid applicable Triggering Event Redemption Price in full, a holder of Debentures shall have the option (the "Void Optional Redemption Option") to, in lieu of redemption, require the Company to promptly return to such holder any or all of

the Debentures that were submitted by such holder under this Section 11 and for which the applicable Triggering Event Redemption Price (together with any interest thereon) has not been

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paid, by sending written notice thereof to the Company via facsimile (the "Void Optional Redemption Notice"). Upon the Company's receipt of such Void Optional Redemption Notice, (i) the Notice of Redemption at Option of Buyer shall be null and void with respect to the Outstanding Principal Amount of the Debentures subject to the Void Optional Redemption Notice, (ii) the Company shall immediately return any Debentures subject to the Void Optional Redemption Notice, and (iii) the Standard Conversion Price of such returned Debentures shall be adjusted to the lesser of (A) the Standard Conversion Price as in effect on the date on which the Void Optional Redemption Notice is delivered to the Company and (B) the lowest Weighted Average Price of the Common Stock during the period beginning on the date on which the Notice of Redemption at Option of Buyer is delivered to the Company and ending on the date on which the Void Optional Redemption Notice is delivered to the Company.

(f) Disputes; Miscellaneous. In the event of a dispute as to the determination of the arithmetic calculation of the Triggering Event Redemption Price, such dispute shall be resolved pursuant to Section 6(e)(iii) above with the term "Triggering Event Redemption Price" being substituted for the term "Conversion Rate". A holder's delivery of a Void Optional Redemption Notice and exercise of its rights following such notice shall not effect the Company's obligations to make any payments which have accrued prior to the date of such notice. In the event of a redemption pursuant to this Section 11 of less than all of the Outstanding Principal Amount represented by a particular Debenture, the Company shall promptly cause to be issued and delivered to the holder of such Debenture a new Debenture representing the remaining Outstanding Principal Amount which has not been redeemed, if necessary.

(g) Redemption for Failure to Obtain NASD Approval and Shareholder Approval. In addition to all other rights of the Holder contained herein, if the Company (A) shall fail to obtain the NASD Approval on or prior to the NASD Deadline and (B) shall fail to obtain the Shareholder Approval on or prior to the Stockholder Meeting Deadline, the Holder shall have the right, at the Holder's option, to require the Company to redeem up to that number of Debentures held by such holder of which the Outstanding Principal Amount is equal to (i) the Escrow Amount multiplied by (ii) a fraction (x) the numerator of which is equal to the Outstanding Principal Amount of the Debentures held by such holder and (y) the denominator of which is equal to the Outstanding Principal Amount of all Debentures at a price equal to par plus accrued and

unpaid interest thereon (the "Shareholder Approval Failure Redemption Price"). Within one Business Day after the failure of the Company to obtain the Shareholder Approval on or prior to the Stockholder Meeting Deadline, the Company shall deliver written notice thereof via facsimile and overnight courier ("Notice of Shareholder Approval Failure") to each holder of Debentures. At any time during the period commencing on the earlier of a holder's receipt of a Notice of Shareholder Approval Failure and such holder becoming aware of a Shareholder Approval Failure and ending at 11:59 PM (New York City time) on the fifth (5th) Business Day after the holder's receipt of Notice of Shareholder Approval Failure, any holder of Debentures then outstanding may require the Company to redeem up to that amount of outstanding principal of Debentures held by such holder equal to (i) the Escrow Amount multiplied by (ii) a fraction (x) the numerator of which is the aggregate Outstanding Principal Amount of the Debentures

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held by such holder and (y) the denominator of which is equal to the aggregate Outstanding Principal Amount of all Debentures by delivering written notice thereof via facsimile and overnight courier ("Notice of Shareholder Approval Failure Redemption") to the Company and the Escrow Agent, which Notice of Shareholder Approval Failure Redemption shall indicate the Outstanding Principal Amount of the Debentures that such holder is electing to redeem. Upon the Company's receipt of a Notice(s) of Shareholder Approval Failure Redemption from any holder of Debentures, the Company shall immediately notify each holder of Debentures by facsimile of the Company's receipt of such notice(s). The Escrow Agent, on behalf of the Company, shall deliver on the fifth (5th) Business Day after the Company's receipt of the first Notice of Shareholder Approval Failure Redemption the Shareholder Approval Failure Redemption Price to all holders that deliver a Notice of Shareholder Approval Failure Redemption prior to the fifth (5th) Business Day after the Company's receipt of the first Notice of Shareholder Approval Failure Redemption.

12. Other Rights of Holders.

(a) Reorganization, Reclassification, Consolidation, Merger or Sale. Any recapitalization, reorganization, reclassification, consolidation, merger, sale of all or substantially all of the Company's assets to another Person or other transaction which is effected in such a way that holders of Common Stock are entitled to receive (either directly or upon subsequent liquidation) stock, securities or assets with respect to or in exchange for Common Stock is referred to herein as "Organic Change." Prior to the consummation of any (i) sale of all or substantially all of the Company's assets to an acquiring Person or (ii) other Organic Change following which the Company

is not a surviving entity, the Company will secure from the Person purchasing such assets or the successor, or, if applicable, the parent of the successor, resulting from such Organic Change (in each case, the "Acquiring Entity") a written agreement (in form and substance reasonably satisfactory to the holders of at least two-thirds of the Outstanding Principal Amount of the Debentures then outstanding) to deliver to each holder of Debentures in exchange for such shares, a security of the Acquiring Entity evidenced by a written instrument substantially similar in form and substance to the Debentures, including, without limitation, having a principal amount equal to the Outstanding Principal Amount and being of rank equal to the Debentures held by such holder, and reasonably satisfactory to the holders of at least two-thirds of the Outstanding Principal Amount of the Debentures then outstanding. Prior to the consummation of any other Organic Change, the Company shall make appropriate provision (in form and substance reasonably satisfactory to the holders of at least two-thirds of the Outstanding Principal Amount of the Debentures then outstanding) to insure that each of the holders of the Debentures will thereafter have the right to acquire and receive in lieu of or in addition to (as the case may be) the shares of Common Stock and Preferred Shares (or fractional interests therein) immediately theretofore acquirable and receivable upon the conversion of such holder's Debentures such shares of stock, securities or assets that would have been issued or payable in such Organic Change with respect to or in exchange for the number of shares of Common Stock and Preferred Shares (or fractional interests therein) which would have been acquirable and receivable upon the conversion of such holder's Debentures as of the date of such Organic Change (without taking into account any limitations or restrictions on the convertibility of the Debentures).

(b) Optional Redemption Upon Change of Control. In addition to the rights of the holders of Debentures, upon a Change of Control (as defined below) of the

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Company each holder of Debentures shall have the right, at such holder's option, to require the Company to redeem all or a portion of such holder's Debentures at a price equal to 125% of the Outstanding Principal Amount plus accrued and unpaid interest ("Change of Control Redemption Price"). No sooner than 20 Business Days nor later than 10 Business Days prior to the consummation of a Change of Control, but not prior to the public announcement of such Change of Control, the Company shall deliver written notice thereof via facsimile and overnight courier (a "Notice of Change of Control") to each holder of Debentures. At any time during the period beginning after receipt of a Notice of Change of Control (or, in the event a Notice of Change of Control is not delivered at least 10 Business Days prior to a Change of Control, at any time on

or after the date which is 10 Business Days prior to a Change of Control) and ending on the date of such Change of Control, any holder of the Debentures then outstanding may require the Company to redeem all or a portion of the holder's Debentures then outstanding by delivering written notice thereof via facsimile and overnight courier (a "Notice of Redemption Upon Change of Control") to the Company, which Notice of Redemption Upon Change of Control shall indicate (i) the Outstanding Principal Amount of the Debentures that such holder is submitting for redemption, and (ii) the applicable Change of Control Redemption Price, as calculated pursuant to this Section 12(b). Upon the Company's receipt of a Notice(s) of Redemption Upon Change of Control from any holder of Debentures, the Company shall promptly, but in no event later than one (1) Business Day following such receipt, notify each holder of Debentures by facsimile of the Company's receipt of such Notice(s) of Redemption Upon Change of Control. The Company shall deliver the applicable Change of Control Redemption Price simultaneously with the consummation of the Change of Control; provided that, if required by Section 8, a holder's Debentures shall have been so delivered to the Company. Payments provided for in this Section 12(b) shall have priority to payments to other debtholders and the stockholders of the Company in connection with a Change of Control. For purposes of this Section 10(b), "Change of Control" means (i) the consolidation, merger or other business combination of the Company with or into another Person (other than (A) a consolidation, merger or other business combination in which holders of the Company's voting power necessary to elect a majority of the members of the board of directors immediately prior to the transaction continue after the transaction to hold, directly or indirectly, at least 70% of the voting power with respect to election of the members of the board of directors of the surviving entity or entities necessary to elect a majority of the members of the board of directors (or their equivalent if other than a corporation) of the surviving entity or entities, or (B) pursuant to a migratory merger effected solely for the purpose of changing the jurisdiction of incorporation of the Company), (ii) the sale or transfer of all or substantially all of the Company's assets, which, for the avoidance of doubt, shall be deemed to include any sale or transfer of ten percent (10%) or more of the equity in, or any substantial part of the assets of, the Corporation's Sorrento Networks, Inc. subsidiary, or (iii) a purchase, tender or exchange offer made to and accepted by the holders of more than 50% of the aggregate voting power of the outstanding Common Stock.

13. Reservation of Stock Issuable Upon Conversion.

The Company shall, so long as any of the Debentures are outstanding, take all action necessary to reserve and keep available out of its authorized and unissued Common Stock and preferred stock, solely for the purpose of effecting the conversions of the Debentures, such number of shares of Common Stock and Preferred Shares (and fractional interests therein) as shall from time to time be sufficient to effect the conversion of all of the Debentures then

outstanding; provided that the number of shares of Common Stock and Preferred Shares (and fractional interests therein) so reserved shall at no time be less than, 200% of the number of shares of Common Stock and Preferred Shares (and fractional interests therein) needed to provide for the issuance of the shares of Common Stock and Preferred Shares (and fractional interests therein) upon conversion of all of the Debentures (without regard to any limitations on conversion). The initial number of shares of Common Stock and Preferred Shares (and fractional interests therein) reserved for conversions of the Debentures and each increase in the number of shares so reserved shall be allocated pro rata among the holders of the Debentures based on the Outstanding Principal Amount of the Debentures held by each holder at the time of issuance of the Debentures or increase in the number of reserved shares, as the case may be. In the event a holder shall sell or otherwise transfer any portion of the Outstanding Principal Amount of such holder's Debentures, each transferee shall be allocated a pro rata portion of the number of reserved shares of Common Stock and Preferred Shares (and fractional interests therein) reserved for such transferor. Any shares of Common Stock and Preferred Shares (and fractional interests therein) reserved and allocated to any Person which ceases to hold any Debentures shall be allocated to the remaining holders of Debentures, pro rata based on the Outstanding Principal Amount of Debentures then held by such holders.

14. No Reissuance of Debentures. No Debentures acquired by the Company by reason of redemption, purchase, conversion or otherwise shall be reissued, and all such Debentures shall be retired. No additional Debentures shall be authorized or issued without the consent of the holders of at least two-thirds of the Outstanding Principal Amount of the Debentures.

15. No Impairment. The Company shall not intentionally take any action which would impair the rights and privileges of the Debentures set forth herein or the Holders thereof.

16. Rank of Subordinated Debt; Liens. Without the prior written consent of the holders of not less than two-thirds of the Outstanding Principal Amount of the Debentures and other than the (a) Credit Facility, (b) debt incurred in the ordinary course of business with respect to the acquisition of equipment and production related assets, but not in excess of the purchase price therefor, (c) operating leases, exclusive of synthetic leases, of equipment and (d) refinancing of the debt existing on the date hereof so long as such refinancing does not increase the weighted average interest rate applicable thereto or accelerate the stated maturity thereof from that in effect prior to such refinancing, the Company shall not, and shall not permit any of its Subsidiaries to issue or incur, any debt that is of senior or pari-passu rank to the Debentures in respect of rights or preferences as to payments upon liquidation, dissolution, winding up or otherwise of the Company. Without the prior written consent of not less than two-thirds of the Outstanding Principal Amount of the Debentures, other than (a) in connection with the Credit Facility and (b) in connection with the acquisition in the ordinary course of business of equipment

and production related assets subject to purchase money security interests for amounts not in excess of the fair market value of such equipment and other assets, the Company shall not create or suffer to exist, or permit any of its subsidiaries to create or suffer to exist, any lien, mortgage, security interest, charge or other encumbrance upon or with respect to any of their properties, rights or other assets, whether now owned or hereafter acquired, or assign or otherwise transfer or permitted any of its subsidiaries to assign or otherwise transfer, any right to receive income (other than liens for taxes not yet due or being contested in good faith or incurred

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or arising in the ordinary course of business for amounts not more than 60 days past due or which are being diligently contested and which involve any significant risk of forfeiture). In addition, neither the Company nor any of its Subsidiaries shall issue or incur any debt for borrowed money that is subordinate to the Debentures in respect of rights or preferences as to payments upon liquidation, dissolution, winding up or otherwise of the Company or any of its subsidiaries or issue any redeemable preferred stock (collectively with such debt, "Subordinated Debt") unless the Subordinated Debt has a maturity date occurring later in time than the Maturity Date and, other than with respect to any series of preferred stock, the holders of not less than two-thirds of the Outstanding Principal Amount of the Debentures have approved in writing the provisions of the Subordinated Debt subordinating such Subordinated Debt to the Debentures. For purposes hereof, "Subordinated Debt" shall include any and all obligations of the Company or any of its Subsidiaries evidenced by a bond, debenture, note or other like written obligation to pay money, including (without limitation) any redeemable preferred stock. The Company shall no longer be bound by any provision of this Section 16 at such time as the Outstanding Principal Amount of all Debentures is less than \$5,000,000.

17. Limitation on Beneficial Ownership. The Company shall not effect and shall have no obligation to effect any conversion of Debentures, and no holder of Debentures shall have the right to convert any Debentures, to the extent that after giving effect to such conversion, the beneficial owner of such shares (together with such Person's affiliates) would have acquired, through conversion of Debentures or otherwise, beneficial ownership of a number of shares of Common Stock that exceeds 4.99% of the number of shares of Common Stock outstanding immediately after giving effect to such conversion. For purposes of the foregoing sentence, the number of shares of Common Stock beneficially owned by a Person and its affiliates shall include the number of shares of Common Stock issuable upon conversion of the Debentures with respect to which the determination of such sentence is being made, but shall exclude the number of shares of Common Stock which would be issuable upon (A) conversion of

the remaining, nonconverted Debentures beneficially owned by such Person or any of its affiliates and (B) exercise or conversion of the unexercised or unconverted portion of any other securities of the Company (including, without limitation, any warrants) subject to a limitation on conversion or exercise analogous to the limitation contained herein beneficially owned by such Person or any of its affiliates. For purposes of this Section 17, beneficial ownership shall be calculated in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended. For purposes of this Section 17, in determining the number of outstanding shares of Common Stock, a holder may rely on the number of outstanding shares of Common Stock as reflected in (1) the Company's most recent Form 10-Q, Form 10-K or other public filing with the SEC, as the case may be, (2) a more recent public announcement by the Company, or (3) any other notice by the Company or its transfer agent setting forth the number of shares of Common Stock outstanding. Upon the written request of the Holder, the Company shall promptly, but in no event later than one (1) Business Day following the receipt of such notice, confirm in writing to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to conversions of Debentures and exercise of the Warrants by the Holder and its affiliates since the date as of which such number of outstanding shares of Common Stock was reported.

18. Obligations Absolute. No provision of this Debenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the Outstanding

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Principal Amount of, and interest on, this Debenture at the time, place and rate, and in the manner, herein prescribed.

19. Waivers of Demand, Etc. The Company hereby expressly waives demand and presentment for payment, notice of nonpayment, protest, notice of protest, notice of dishonor, notice of acceleration or intent to accelerate, bringing of suit and diligence in taking any action to collect amounts called for hereunder and will be directly and primarily liable for the payment of all sums owing and to be owing hereon, regardless of and without any notice, diligence, act or omission as or with respect to the collection of any amount called for hereunder.

20. Replacement Debentures. In the event that any Holder notifies the Company that its Debenture(s) have been lost, stolen or destroyed, replacement Debenture(s) identical in all respects to the original Debenture(s) (except for registration number and Outstanding Principal Amount, if different than that shown on the original Debenture(s)) shall be issued by the Company to the

Holder, provided that the Holder executes and delivers to the Company an agreement reasonably satisfactory to the Company to indemnify the Company from any loss incurred by it in connection with such Debenture(s).

21. Payment of Expenses. The Company agrees to pay all reasonable expenses, including reasonable attorneys' fees, which may be incurred by the Holder in enforcing the provisions of this Debenture and/or collecting any amount due under this Debenture, the Securities Purchase Agreement, the Warrants, or the Registration Rights Agreement.

22. Defaults. The following shall constitute "Events of Default":

(a) Any money judgment (including any arbitration award, but only if reduced to a judgment), writ or warrant of attachment, or similar process in excess of Five Hundred Thousand Dollars (\$500,000) in the aggregate shall be entered or filed against the Company, its subsidiaries or any of their properties or other assets and which shall remain unpaid, unvacated, unbonded or unstayed for a period of sixty (60) days; or

(b) The Company shall default in the payment of (i) interest on this Debenture, and such default shall continue for two (2) Business Days after the due date thereof, or (ii) the Outstanding Principal Amount of this Debenture; or

(c) Any of the representations or warranties made by the Company herein, in the Securities Purchase Agreement, the Registration Rights Agreement, or in any certificate or financial or other statements heretofore or hereafter furnished by or on behalf of the Company in connection with the execution and delivery of this Debenture or the Securities Purchase Agreement shall be false or misleading in any material respect at the time made and such condition (to the extent capable of being cured) shall continue uncured for a period of ten (10) Business Days after notice from the Holder of such condition; or

(d) The Company shall fail to perform or observe in any respect any covenant or agreement in the Securities Purchase Agreement, the Registration Rights Agreement, the Warrants or this Debenture, including, without limitation, the failure to honor any Conversion Notice or Exercise Notice (as defined in the Warrants) and deliver shares

pursuant thereto, and such failure shall continue uncured for a period of ten (10) Business Days after notice from the Holder of such failure, except that any

breach of Section 4(aa) of the Securities Purchase Agreement shall not be subject to said ten (10) Business Day cure period; instead, any breach of Section 4(aa) of the Securities Purchase Agreement shall constitute an immediate Event of Default; or

(e) The Company shall (i) become insolvent; (ii) admit in writing its inability to pay its debts generally as they mature; (iii) make an assignment for the benefit of creditors or commence proceedings for its dissolution; or (iv) apply for or consent to the appointment of a trustee, liquidator or receiver for it or for a substantial part of its property or business; or

(f) A trustee, liquidator or receiver shall be appointed for the Company or for a substantial part of its property or business without its consent and shall not be discharged within sixty (60) days after such appointment; or

(g) Any governmental agency or any court of competent jurisdiction at the instance of any governmental agency shall assume custody or control of the whole or any substantial portion of the properties or assets of the Company and shall not be dismissed within sixty (60) days thereafter; or

(h) Bankruptcy, reorganization, insolvency or liquidation proceedings or other proceedings, or relief under any bankruptcy law or any law for the relief of debt, shall be instituted by or against the Company and, if instituted against the Company, shall not be dismissed within sixty (60) days after such institution or the Company shall by any action or answer approve of, consent to, or acquiesce in any such proceedings or admit to any material allegations of, or default in answering a petition filed in any such proceeding; or

(i) The Company shall fail to pay any debt for borrowed money or other similar obligation or liability ("Indebtedness") (excluding Indebtedness evidenced by this Debenture) in excess of \$100,000 in the aggregate, or any interest or premium thereon, when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Indebtedness, or any other default under any agreement or instrument relating to any such Indebtedness, or any other event, shall occur and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such default or event is to accelerate, or to permit the acceleration of, the maturity of such Indebtedness; or any such Indebtedness shall be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment), prior to the stated maturity thereof; or

(j) A material adverse change in the condition or operations, financial or otherwise, of the Company, as determined by the Holder in its sole discretion, shall occur and 5 days prior written notice thereof shall have been given to the Company by the Holder.

Unless an Event of Default shall have been waived in writing by holders of two-thirds of the Outstanding Principal Amount of the Debentures (which waiver shall not be deemed to be a waiver of any subsequent default), at the option of and (except in the case of clause (h)

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above) on notice by the holders of at least 25% of the Outstanding Principal Amount of the Debentures and in the sole discretion of at least 25% of the holders of the Outstanding Principal Amount of the Debentures, the holders of at least 25% of the Outstanding Principal Amount of the Debentures may declare the Debentures immediately due and payable, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived, anything herein or in any other instruments contained to the contrary notwithstanding, and the Holder may immediately, and without expiration of any period of grace, enforce any and all of the Holder's rights and remedies provided herein or any other rights or remedies afforded by law. In such event, this Debenture shall be redeemed at a redemption price equal to 125% of the Outstanding Principal Amount of the Debenture, plus accrued interest on this Debenture. In addition to the foregoing, and notwithstanding any waiver by Holder with respect to an Event of Default, upon an Event of Default, the rate of interest on this Debenture, shall, to the maximum extent of the law, be permanently increased by two percent (2%) per annum (i.e., from 9.75% to 11.75% per annum) commencing on the first day of the thirty (30) day period (or part thereof) following the Event of Default; an additional two percent (2%) per annum commencing on the first day of each of the second and third such thirty (30) day periods (or part thereof); and an additional one percent (1%) on the first day of each consecutive thirty (30) day period (or part thereof) thereafter until this Debenture has been duly converted or redeemed as herein provided; provided that in no event shall the rate of interest exceed the lower of 20% or the highest rate permitted by applicable law. Any such interest which is not paid when due shall, to the maximum extent permitted by law, accrue interest until paid at the rate from time to time applicable to interest on the Debentures as to which the Event of Default has occurred.

23. Savings Clause. In case any provision of this Debenture is held by a court of competent jurisdiction to be excessive in scope or otherwise invalid or unenforceable, such provision shall be adjusted rather than voided, if possible, so that it is enforceable to the maximum extent possible, and the validity and enforceability of the remaining provisions of this Debenture will not in any way be affected or impaired thereby.

24. Entire Agreement. This Debenture, and the agreements referred to in this Debenture constitute the full and entire understanding and agreement

between the Company and the Holder with respect to the subject hereof. Neither this Debenture nor any term hereof may be amended, waived, discharged or terminated other than by a written instrument signed by the Company and the Holder.

25. Assignment, Etc. The Holder may, subject to compliance with the Securities Purchase Agreement and to applicable federal and state securities laws, transfer or assign this Debenture or any interest herein and may pledge, encumber or transfer any of its rights or interest in and to this Debenture or any part hereof and, without limitation, each assignee, transferee and pledgee (which may include any affiliate of the Holder) shall have the right to transfer or assign its interest. Each such assignee, transferee and pledgee shall have all of the rights of the Holder under this Debenture. The Company agrees that, subject to compliance with the Securities Purchase Agreement, after receipt by the Company of written notice of assignment from the Holder or from the Holder's assignee, all principal, interest and other amounts which are then, and thereafter become, due under this Debenture shall be paid to such assignee, transferee or pledgee at the place of payment designated in such notice. This Debenture shall be binding upon the Company and its successors and shall inure to the benefit of the Holder and its successors and assigns.

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26. No Waiver. No failure on the part of the Holder to exercise, and no delay in exercising, any right, remedy or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise by the Holder of any right, remedy or power hereunder preclude any other or future exercise of any other right, remedy or power. Each and every right, remedy or power hereby granted to the Holder or allowed it by law or other agreement shall be cumulative and not exclusive of any other, and may be exercised by the Holder from time to time.

27. Miscellaneous. Unless otherwise provided herein, any notice or other communication to a party hereunder shall be sufficiently given if in writing and personally delivered or sent by facsimile with copy sent in another manner herein provided or sent by courier (which for all purposes of this Debenture shall include Federal Express, UPS or other recognized overnight courier) or mailed to said party by certified mail, return receipt requested, at its address provided for in the Securities Purchase Agreement or such other address as either may designate for itself in such notice to the other and communications shall be deemed to have been received when delivered personally, on the scheduled arrival date when sent by next day or 2-day courier service or if sent by facsimile upon receipt of transmittal confirmation or if sent by mail then three days after deposit in the mail. Whenever the sense of this Debenture

requires, words in the singular shall be deemed to include the plural and words in the plural shall be deemed to include the singular. If more than one company is named herein, the liability of each shall be joint and several. Paragraph headings are for convenience only and shall not affect the meaning of this document.

28. Choice of Law and Venue; Waiver of Jury Trial. THIS DEBENTURE SHALL BE CONSTRUED UNDER THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW OR CHOICE OF LAW (OTHER THAN SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW). The parties hereto hereby agree that all actions or proceedings arising directly or indirectly from or in connection with this Debenture shall be litigated only in the United States District Court for the Southern District of New York located in New York County, New York or in a state court located in the borough of Manhattan. The parties hereto consent to the exclusive jurisdiction and venue of the foregoing courts and consent that any process or notice of motion or other application to either of said courts or a judge thereof may be served inside or outside the State of New York or the Southern District of New York by registered mail, return receipt requested, directed as provided in Section 27 (and service so made shall be deemed complete five (5) days after the same has been posted as aforesaid) or by personal service or in such other manner as may be permissible under the rules of said courts. The parties hereto hereby waive any right to a jury trial in connection with any litigation pursuant to this Debenture.

29. Rule 144. With a view to making available to the Holder the benefits of Rule 144 promulgated under the Securities Act ("Rule 144") and any other rule or regulation of the SEC that may at any time permit the Holder to sell the underlying stock of the Company issuable upon conversion or exercise of the Debentures and the Warrants to the public without registration, the Company agrees to use its reasonable best efforts to:

(i) make and keep public information available, as those terms are understood and defined in Rule 144, at all times;

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(ii) file with the SEC in a timely manner all reports and other documents required of the Company under the Act and the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and

(iii) furnish to any Holder, forthwith upon request, a written statement by the Company (provided true at the time) that it has complied with the applicable reporting and filing requirements of the Act and the Exchange Act, a copy of the most recent annual or quarterly report of the Company, and

such other reports and documents so filed by the Company as may be reasonably requested to permit any such Holder to take advantage of any rule or regulation of the SEC permitting the selling of any such securities without registration.

30. Restriction on Redemption and Cash Dividends. Unless all of the Debentures have been converted or redeemed as provided herein, the Company shall not, directly or indirectly, nor shall the Company permit any of its Subsidiaries to, directly or indirectly, redeem, repurchase, or declare or pay any cash dividend, distribution or any other payment on, its capital stock without the prior express written consent of the holders of not less than two-thirds of the Outstanding Principal Amount of the Debentures then outstanding, except (a) as may be required by the terms of the Series F Preferred Stock, (b) in connection with the exchange of the Subsidiary Preferred Stock solely for shares of any class of capital stock of the Company or (c) solely with respect to redemption or repurchases by Sorrento Networks, Inc., as may be legally required by the terms of the Subsidiary Preferred Stock.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed by an officer thereunto duly authorized.

Dated: _____, 2001

SORRENTO NETWORKS CORPORATION

By:

Name: Joe R. Armstrong

Title: Chief Financial Officer

ATTEST

Name:

Title:

EXHIBIT I

(To be Executed by Registered Holder
in order to Convert Debenture)

CONVERSION NOTICE
FOR
9.75% SENIOR CONVERTIBLE DEBENTURE DUE AUGUST 2, 2004

The undersigned, as Holder of the 9.75% Senior Convertible Debenture Due August 2, 2004 of SORRENTO NETWORKS CORPORATION (the "Company"), No. __, in the outstanding principal amount of \$_____ (the "Debenture"), hereby elects to convert \$_____ of the outstanding principal amount of the Debenture into shares of Common Stock, par value \$.30 per share (the "Common Stock") of the Company, and/or into shares or fractional interests therein of Series F Preferred Stock, par value \$.01 per share (the "Preferred Shares"), of the Company according to the conditions of the Debenture, as of the date written below. The undersigned confirms that the representations and warranties contained in Section 2 of the Securities Purchase Agreement entered into in connection with the initial issuance of the Debentures are true and correct as to the undersigned as of the date hereof.

Date of Conversion: _____

Principal Amount of Debentures to be converted: _____

Tax ID Number (If applicable): _____

Please confirm the following information: _____

Conversion Price: _____

Number of shares of Common Stock to be issued: _____

Number of Preferred Shares to be issued: _____

Is the Variable Price being relied on pursuant to Section 10(c) of the Debenture? (check one) YES No

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Please issue the Common Stock and Preferred Shares, or fractions thereof, into which the Debentures are being converted and, if applicable, any check drawn on an account of the Company in the following name and to the following address:

Issue to: _____

Address: _____

Telephone Number: _____

Facsimile Number: _____

Authorization: _____

By: _____

Title: _____

Dated:

Account Number (if electronic book entry transfer): _____

Transaction Code Number (if electronic book entry transfer): _____

[NOTE TO HOLDER -- THIS FORM MUST BE SENT CONCURRENTLY TO TRANSFER AGENT]

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EXHIBIT II

[Attach Series F Preferred Stock Certificate of Designations]

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Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to conversions of Convertible Debentures (as defined below) and exercise of Warrants (as defined below) by such holder and its affiliates.

Section 1.

(a) SECURITIES PURCHASE AGREEMENT. This Warrant (as defined herein) is one of the Warrants issued pursuant to Section 1 of that certain Securities Purchase Agreement dated as of August 1, 2001, among the Company and the Persons referred to therein (the "Securities Purchase Agreement").

(b) DEFINITIONS. The location of definitions used in this Warrant is set forth on the Index of Terms attached hereto, and the following words and terms as used in this Warrant shall have the following meanings:

(i) "Approved Stock Plan" means any employee benefit plan which has been approved by the Board of Directors of the Company, pursuant to which the Company's securities may be issued to any employee, consultant, officer or director for services provided to the Company; provided, that the aggregate amount issued or deemed issued under all such plans does not exceed 14,381,116 shares of Common Stock subject to appropriate adjustment for any stock dividends, any subdivision or combination, or other reorganization of the outstanding shares of Common Stock.

(ii) "Bloomberg" means Bloomberg Financial Services, L.P. or any other similar financial reporting service as may be selected from time to time by the Company and the holders of the Warrants representing two-thirds of the shares of Common Stock (and Preferred Shares, counting each Preferred Share solely for such purposes as 10 shares of Common Stock) issuable upon exercise of outstanding Warrants.

(iii) "Business Day" means any day other than Saturday, Sunday or other day on which commercial banks in The City of New York are authorized or required by law to remain closed.

(iv) "Closing Bid Price" means, for any security as of any date, the last closing bid price for such security on the Principal Market (as defined below) as reported by Bloomberg, or if the Principal Market begins to operate on an extended hours basis, and does not designate the closing bid price, then the last bid price at 4:00 p.m., New York City Time, as reported by Bloomberg, or if the foregoing do not apply, the last closing bid price of such security in the over-the-counter market on the electronic bulletin board for such security as reported by Bloomberg, or, if no closing bid price is reported for such security by Bloomberg, the last closing trade price for such security as reported by Bloomberg, or, if no last closing trade

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price is reported for such security by Bloomberg, the average of the bid prices of any market makers for such security as reported in the "pink sheets" by the National Quotation Bureau, Inc. If the Closing Bid Price cannot be calculated for such security on such date on any of the foregoing bases, the Closing Bid Price of such security on such date shall be the fair market value as mutually determined by the Company and the holders of the Warrants representing at least two-thirds of the shares of Common Stock (and Preferred Shares, counting each Preferred Share solely for such purposes as 10 shares of Common Stock) issuable upon exercise of all of the Warrants then outstanding. If the Company and the holders of the Warrants are unable to agree upon the fair market value of the Common Stock, then such dispute shall be resolved pursuant to Section 2(a) of this Warrant. All such determinations shall be appropriately adjusted for any stock dividend, stock split or other similar transaction during such period. All fees and expenses of such determinations shall be borne solely by the Company.

(v) "Closing Sale Price" means, for any security as of any date, the last closing trade price for such security on the Principal Market as reported by Bloomberg, or if the Principal Market begins to operate on

an extended hours basis, and does not designate the closing trade price, then the last trade price at 4:00 p.m., New York City Time, as reported by Bloomberg, or if the foregoing do not apply, the last closing trade price of such security in the over-the-counter market on the electronic bulletin board for such security as reported by Bloomberg, or, if no last closing trade price is reported for such security by Bloomberg, the last closing ask price of such security as reported by Bloomberg, or, if no last closing ask price is reported for such security by Bloomberg, the average of the highest bid price and the lowest ask price of any market makers for such security as reported in the "pink sheets" by the National Quotation Bureau, Inc. If the Closing Sale Price cannot be calculated for such security on such date on any of the foregoing bases, the Closing Sale Price of such security on such date shall be the fair market value as mutually determined by the Company and the holders of the Warrants representing at least two-thirds of the shares of Common Stock (and Preferred Shares, counting each Preferred Share solely for such purposes as 10 shares of Common Stock) issuable upon exercise of all of the Warrants then outstanding. If the Company and the holders of the Warrants are unable to agree upon the fair market value of the Common Stock, then such dispute shall be resolved pursuant to Section 2(a) below with the term "Closing Sale Price" being substituted for the term "Closing Bid Price." All such determinations shall be appropriately adjusted for any stock dividend, stock split or other similar transaction during such period. All fees and expenses of such determinations shall be borne solely by the Company.

(vi) "Common Stock" means (i) the Company's common stock, par value \$0.30 per share, and (ii) any capital stock into which such Common Stock shall have been changed or any capital stock resulting from a reclassification of such Common Stock and all other stock of any class or classes (however designated) of the Company the holders of which have the right, without limitation as to amount, either to all or to a share of the balance of current dividends and liquidating dividends after the payment of dividends and distributions on any shares entitled to preference.

(vii) "Common Stock Deemed Outstanding" means, at any given time, the number of shares of Common Stock actually outstanding at such time, plus the number of shares of Common Stock (or Preferred Shares to the extent Preferred Shares are issuable in lieu of Common Stock pursuant to the terms of the Convertible Debentures) deemed to be outstanding pursuant to Sections 8(b)(i) and 8(b)(ii) hereof regardless of whether the Options or

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Convertible Securities are actually exercisable at such time, but excluding any shares of Common Stock or Preferred Shares owned or held by or for the account of the Company or issuable upon conversion of the Convertible Debentures or exercise of the Warrants.

(viii) "Convertible Debentures" means the Company's 9.75% Senior Convertible Debentures Due August 2, 2004 (including the certificate of designations the "Certificate of Designations") attached thereto as Exhibit II issued pursuant to the Securities Purchase Agreement.

(ix) "Convertible Securities" means any stock or securities (other than Options) directly or indirectly convertible into or exchangeable or exercisable for Common Stock.

(x) "Expiration Date" means August 2, 2005 or, if such date does not fall on a Business Day or on a day on which trading takes place on the Principal Market, then the next Business Day.

(xi) "Issuance Date" means, with respect to each Warrant, the date of issuance of the applicable Warrant.

(xii) "Market Price" means, with respect to any security for any date of determination, that price which is equal to the arithmetic average of the Weighted Average Price of such security on each trading day during the ten (10) consecutive trading days immediately preceding

such date of determination. All such determinations to be appropriately adjusted for any stock dividend, stock split, stock combination or other similar transaction occurring during such ten (10) consecutive trading day period.

(xiii) "Maximum Share Amount" means 2,836,222 shares of Common Stock (subject to adjustment for stock splits, stock dividends, recapitalizations, combinations, reverse stock splits or other similar events).

(xiv) "NASD Approval" means receipt by the Company, on or prior to the NASD Deadline, of a written response to its request that the NASD confirm that no Shareholder Approval is required for the transactions contemplated by the Debentures and the Warrants, satisfactory in form and substance to the holders (in their sole and absolute discretion) of not less than two-thirds of the outstanding principal amount of the Debentures. If the NASD Approval is not obtained by the NASD Deadline, then the NASD Approval shall not be deemed to have been obtained.

(xv) "NASD Deadline" means August 29, 2001.

(xvi) "Option" means any rights, warrants or options to subscribe for or purchase or otherwise acquire Common Stock or Convertible Securities.

(xvii) "Other Securities" means (i) those Options and Convertible Securities of the Company issued prior to, and outstanding on, the date of issuance of this Warrant, (ii) the shares of Common Stock issued upon conversion of the Convertible Debentures or exercise of the Warrants and (iii) the Preferred Shares (as defined below) to the extent

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Preferred Shares are issuable in lieu of Common Stock upon conversion of the Convertible Debentures or exercise of the Warrants.

(xviii) "Person" means an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and a government or any department or agency thereof.

(xix) "Preferred Shares" means shares of the Company's Series F Preferred Stock, \$.01 par value per share, with the voting powers, preferences and relative participating, optional and other special rights set forth in the Certificate of Designations.

(xx) "Principal Market" means the NASDAQ National Market System ("NASDAQ") or if the Common Stock is not traded on NASDAQ then the principal securities exchange or trading market for the Common Stock.

(xxi) "Registration Rights Agreement" means that registration rights agreement dated August 2, 2001 by and among the Company and the Persons referred to therein.

(xxii) "Revised Warrant Amount" shall be equal to the product of (x) 75% and (y) the quotient of (i) the principal amount of the Debentures held by the holder following its exercise of the redemption right set forth in Section 11(g) of the Debentures divided by the Warrant Exercise Price.

(xxiii) "Securities Act " means the Securities Act of 1933, as amended.

(xxiv) "Shareholder Approval" means the affirmative approval of the Company's stockholders of the issuance of Common Stock upon conversion of the Debentures and exercise of the Warrants at a price per share less than the market value of the Common Stock as of the Issuance Date in accordance with applicable law and the rules and regulations of the Principal Market on or prior to the earlier of (i) 120 days from the Issuance Date or (ii) the next meeting of the stockholders of the Company.

(xxv) "Strategic Financing" shall mean the issuance of Common Stock or warrants to purchase Common Stock at a purchase price or an exercise price, as the case may be, that is not less than the Closing Bid Price of the Common Stock over the five (5) Business Days prior to issuance of such Common Stock or warrant, to any strategic partner, the primary purpose of which is not to raise equity capital but to establish (i) strategic alliances in the telecommunications industries or (ii) contractual relationships with Persons who will assist in the marketing and promoting of the Company and its products; provided that the aggregate number of shares of Common Stock which the Company may issue pursuant to this definition shall not exceed 1,000,000 shares (subject to adjustment for stock splits, stock dividends, stock combination and similar transactions).

(xxvi) "Warrants" means the warrants to purchase shares of Common Stock or Preferred Shares (to the extent Preferred Shares are issuable in lieu of Common Stock pursuant to Section 13) issued pursuant to the Securities Purchase Agreement and all warrants issued in exchange, transfer or replacement thereof.

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(xxvii) "Warrant Shares" means all shares of Common Stock or Preferred Shares (to the extent Preferred Shares are issuable in lieu of Common Stock pursuant to Section 13) issuable upon exercise of the Warrants.

(xxviii) "Warrant Exercise Price" shall be equal to Seven and 21/100 Dollars (\$7.21), subject to further adjustment as hereinafter provided.

(xxix) "Weighted Average Price" means, for any security as of any date, the dollar volume-weighted average price for such security on the Principal Market as reported by Bloomberg through its "Volume at Price" function or, if the foregoing does not apply, the dollar volume-weighted average price of such security in the over-the-counter market on the electronic bulletin board for such security as reported by Bloomberg, or, if no dollar volume-weighted average price is reported for such security by Bloomberg, the average of the bid prices of each of the market makers for such security as reported in the "pink sheets" by the National Quotation Bureau, Inc. If the Weighted Average Price cannot be calculated for such security on such date on any of the foregoing bases, the Weighted Average Price of such security on such date shall be the fair market value as mutually determined by the Company and the holders of the Warrants representing at least two-thirds of the shares of Common Stock (and Preferred Shares, counting each Preferred Share solely for such purpose as 10 shares of Common Stock) issuable upon exercise of all of the Warrants then outstanding. If the Company and the holders of the Warrants are unable to agree upon the fair market value of the Common Stock, then such dispute shall be resolved pursuant to Section 2(a) below with the term "Weighted Average Price" being substituted for the term "Closing Bid Price." All such determinations shall be appropriately adjusted for any stock dividend, stock split or other similar transaction during such period. All fees and expenses of such determinations shall be borne solely by the Company.

Section 2. EXERCISE OF WARRANT.

(a) Subject to the terms and conditions hereof, this Warrant may be exercised by the holder hereof then registered on the books of the Company, in whole or in part, at any time on any Business Day on or after the opening of business on the date hereof and prior to 11:59 P.M., New York City Time, on the Expiration Date by (i) delivery of a written notice, in the form of the subscription notice attached as EXHIBIT A hereto or a reasonable facsimile thereof (the "Exercise Notice"), to the Company and the Company's designated transfer agent (the "Transfer Agent") of such holder's election to exercise this Warrant, which notice shall specify the number of Warrant Shares to be purchased, (ii) (A) payment to the Company of an amount equal to the Warrant Exercise Price multiplied by the number of Warrant Shares as to which this Warrant is being exercised (the "Aggregate Exercise Price") in cash or delivery

of a certified check or bank draft payable to the order of the Company or wire transfer of immediately available funds or (B) by notifying the Company that this Warrant is being exercised pursuant to a Cashless Exercise (as defined in Section 2(e)), and (iii) the surrender to a common carrier for overnight delivery to the Company as soon as practicable following such date of this Warrant (or an indemnification undertaking with respect to this Warrant in the case of its loss, theft or destruction); provided, that if such Warrant Shares are to be issued in any name other than that of the registered holder of this Warrant, such issuance shall be deemed a transfer, and the provisions of Section 7 shall be applicable. In the event of any exercise of the rights represented by this Warrant in compliance with this Section 2(a), the Company shall on the second (2nd) Business Day (the "Warrant Share Delivery Date") following the date of its receipt of the

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Exercise Notice, the Aggregate Exercise Price (or notice of Cashless Exercise) and this Warrant (or an indemnification undertaking or other form of security reasonably satisfactory to the Company with respect to this Warrant in the case of its loss, theft or destruction) (the "Exercise Delivery Documents"), (A) provided the Transfer Agent is participating in The Depository Trust Company Fast Automated Securities Transfer Program or an institution with a similar method of transfer ("DTC") and provided that the holder is eligible to receive shares through DTC, at the holder's request, credit such aggregate number of shares of Common Stock to which the holder shall be entitled to the holder's or its designee's balance account with DTC through its Deposit Withdrawal Agent Commission system or (B) issue and deliver to the address as specified in the Exercise Notice, a certificate or certificates in such denominations as may be requested by the holder in the Exercise Notice, registered in the name of the holder or its designee, for the number of shares of Common Stock or Preferred Shares, as the case may be, to which the holder shall be entitled upon such exercise. Upon delivery of the Exercise Notice and Aggregate Exercise Price referred to in clause (ii)(A) above or notification to the Company of a Cashless Exercise referred to in Section 2(e), the holder of this Warrant shall be deemed for all corporate purposes to have become the holder of record of the Warrant Shares with respect to which this Warrant has been exercised, irrespective of the date of delivery of this Warrant as required by clause (iii) above or the certificates evidencing such Warrant Shares. In the case of a dispute as to the determination of the Warrant Exercise Price, the Closing Bid Price of a security or the arithmetic calculation of the number of Warrant Shares, the Company shall promptly issue to the holder the number of shares of Common Stock that is not disputed and shall submit the disputed determinations or arithmetic calculations to the holder via facsimile within one (1) Business Day of receipt of the holder's subscription notice. If the holder and the Company are unable to agree upon the determination of the Warrant Exercise Price, the Closing Bid Price or arithmetic calculation of the number of Warrant Shares within one (1) Business Day of such disputed determination or arithmetic calculation being submitted to the holder, then the Company shall immediately submit via facsimile (i) the disputed determination of the Warrant Exercise Price or the Closing Bid Price to an independent, reputable investment banking firm selected jointly by the Company and the holder or (ii) the disputed arithmetic calculation of the number of Warrant Shares to its independent, outside accountant. The Company shall cause the investment banking firm or the accountant, as the case may be, to perform the determinations or calculations and notify the Company and the holder of the results no later than two (2) Business Days from the time it receives the disputed determinations or calculations. Such investment banking firm's or accountant's determination or calculation, as the case may be, shall be deemed conclusive absent manifest error.

(b) Unless the rights represented by this Warrant shall have expired or shall have been fully exercised, the Company shall, as soon as practicable and in no event later than five (5) Business Days after any exercise (the "Warrant Delivery Date") and at its own expense, issue a new Warrant identical in all respects to this Warrant exercised except it shall represent rights to purchase the number of Warrant Shares purchasable immediately prior to such exercise under this Warrant, less the number of Warrant Shares with respect to which such Warrant is exercised.

(c) No fractional shares of Common Stock or Preferred Shares (other than in tenths of a share of Preferred Shares) are to be issued upon the exercise of this Warrant, but rather the number of shares of Common Stock or Preferred Shares issued upon exercise of this

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Warrant shall be rounded up or down to the nearest whole number, or one-tenth of a whole share, respectively.

(d) If the Company shall fail for any reason or for no reason to issue to the holder within five (5) Business Days of receipt of the Exercise Delivery Documents, a certificate for the number of shares of Common Stock or Preferred Shares, as the case may be, to which the holder is entitled or to credit the holder's balance account with DTC for such number of shares of Common Stock or Preferred Shares, as the case may be, to which the holder is entitled upon the holder's exercise of this Warrant or a new Warrant for the number of shares of Common Stock or Preferred Shares, as the case may be, to which such holder is entitled pursuant to Section 2(b) hereof, the Company shall, in addition to any other remedies under this Warrant or the Securities Purchase Agreement or otherwise available to such holder, including any indemnification under Section 8 of the Securities Purchase Agreement, pay as additional damages in cash to such holder on each day after the Warrant Share Delivery Date such exercise is not timely effected and/or each day after the Warrant Delivery Date such Warrant is not delivered, as the case may be, in an amount equal to 0.5% of the product of (I) the sum of the number of shares of Common Stock or Preferred Shares, as the case may be, not issued to the holder on or prior to the Warrant Share Delivery Date and to which such holder is entitled and, in the event the Company has failed to deliver a Warrant to the holder on or prior to the Warrant Delivery Date, the number of shares of Common Stock or Preferred Shares, as the case may be, issuable upon exercise of the Warrant as of the Warrant Delivery Date and (II) the Closing Bid Price of the Common Stock or Preferred Shares, as the case may be, on the Warrant Share Delivery Date, in the case of the failure to deliver Common Stock or Preferred Shares, as the case may be, or the Warrant Delivery Date, in the case of failure to deliver a Warrant, as the case may be. The foregoing notwithstanding, the damages set forth in this Section 2(d) shall be stayed with respect to the number of shares of Common Stock or Preferred Shares, as the case may be, and, if applicable, the Warrant for which there is a good faith dispute being resolved pursuant to, and within the time periods provided for in, Section 2(a), pending the resolution of such dispute.

(e) Notwithstanding anything contained herein to the contrary, the holder of this Warrant may, at its election exercised in its sole discretion, exercise this Warrant in whole or in part and, in lieu of making the cash payment otherwise contemplated to be made to the Company upon such exercise in payment of the Aggregate Exercise Price, elect instead to receive upon such exercise the "Net Number" of shares of Common Stock or Preferred Shares, as the case may be (provided that the Net Number shall be calculated by first reducing the number of Preferred Shares issuable), determined according to the following formula (a "Cashless Exercise"):

$$\text{Net Number} = \frac{(A \times B) - (A \times C)}{B}$$

For purposes of the foregoing formula:

A= the sum of (i) the total number of shares of Common Stock with respect to which this Warrant is then being exercised and (ii) (A) the total

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number of Preferred Shares with respect to which this Warrant is then being exercised multiplied by (B) 10.

B= the Closing Sale Price of the Common Stock on the trading day immediately preceding the date of the Exercise Notice.

C= the Warrant Exercise Price then in effect for the applicable Warrant Shares at the time of such exercise.

(f) In addition to any other rights available to the Holder, if the Company fails to deliver to the Holder a certificate or certificates representing the Warrant Shares pursuant to Section 5(a) by the fifth trading day after the date of exercise, and if after such fifth trading day the Holder purchases (in an open market transaction or otherwise) shares of Common Stock to deliver in satisfaction of a sale by the Holder of the Warrant Shares which the Holder anticipated receiving upon such exercise (a "Buy-In"), then the Company shall, to the extent such a payment is not then prohibited or restricted under the Debentures, pay (1) in cash to the Holder the amount by which (x) the Holder's total purchase price (including brokerage commissions if any) for the shares of Common Stock so purchased exceeds (y) the amount obtained by multiplying (A) the number of Warrant Shares that the Company was required to deliver pursuant to Section 5(a) to deliver to the Holder in connection with the exercise at issue by (B) the per share market value at the time of the obligation giving rise to such purchase obligation and (2) deliver to the Holder the number of shares of Common Stock that would have been issued had the Company timely complied with its exercise and delivery obligations under Section 5(a). For example, if the Holder purchases Common Stock having a total purchase price of \$11,000 to cover a Buy-In with respect to an attempted exercise of shares of Common Stock with a market price on the date of exercise totaled \$10,000, under Clause (A) of the immediately preceding sentence the Company shall be required to pay the Holder \$1,000. The Holder shall provide the Company written notice indicating the amounts payable to the Holder in respect of the Buy-In.

Section 3. COVENANTS AS TO COMMON STOCK AND PREFERRED SHARES.
The Company hereby covenants and agrees as follows:

(a) This Warrant is, and any Warrants issued in substitution for or replacement of this Warrant will upon issuance be, duly authorized and validly issued.

(b) All Warrant Shares which may be issued upon the exercise of the rights represented by this Warrant will, upon issuance, be validly issued, fully paid and nonassessable and free from all taxes, liens and charges created by or through the Company with respect to the issue thereof.

(c) During the period within which the rights represented by this Warrant may be exercised, the Company will at all times have authorized and reserved at least (1) 150% of the number of shares of Common Stock and (2) 100% of the number of Preferred Shares needed to provide for the exercise of the rights then represented by this Warrant and the par value of said shares will at all times be less than or equal to the applicable Warrant Exercise Price.

(d) The Company shall promptly secure the listing of the shares of Common Stock issuable upon exercise of this Warrant upon each national securities exchange or automated quotation system, if any, upon which shares of Common Stock are then listed (subject

to official notice of issuance upon exercise of this Warrant) and shall maintain, so long as any other shares of Common Stock shall be so listed, such listing of all shares of Common Stock from time to time issuable upon the

exercise of this Warrant; and the Company shall so list on each national securities exchange or automated quotation system, as the case may be, and shall maintain such listing of, any other shares of capital stock (including the Preferred Shares) of the Company issuable upon the exercise of this Warrant if and so long as any shares of the same class shall be listed on such national securities exchange or automated quotation system.

(e) The Company will not, by amendment of its Certificate of Incorporation, the Certificate of Designations or any other certificate of designations with respect to a preferred stock or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed by it hereunder. Without limiting the generality of the foregoing, the Company (i) will not increase the par value of any shares of Common Stock or Preferred Shares, as the case may be, receivable upon the exercise of this Warrant above the Warrant Exercise Price then in effect, (ii) will take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock or Preferred Shares, as the case may be, upon the exercise of this Warrant and (iii) will not take any action which results in any adjustment of the Warrant Exercise Price if the total number of shares of Common Stock (or Other Securities, including the Preferred Shares) issuable after the action upon the exercise of all of the Warrants would exceed the total number of shares of Common Stock (or Other Securities, including Preferred Shares) then authorized by the Company's certificate of incorporation, the Certificate of Designations or any other certificate of designations with respect to a preferred stock and available for the purpose of issue upon such exercise.

(f) This Warrant will be binding upon any entity succeeding to the Company by merger, consolidation or acquisition of all or substantially all of the Company's assets.

(g) The Company will, at the time of each exercise of this Warrant, upon the request of the holder hereof, acknowledge in writing its continuing obligation to afford to such holder all rights to which such holder shall continue to be entitled after such exercise in accordance with the terms of this Warrant, provided, that if the holder of this Warrant shall fail to make any such request, such failure shall not affect the continuing obligation of the Company to afford such rights to the holder.

Section 4. TAXES. The Company shall pay any and all documentary, stamp, transfer and other similar taxes which may be payable with respect to the issuance and delivery of Warrant Shares upon exercise of this Warrant.

Section 5. WARRANT HOLDER NOT DEEMED A STOCKHOLDER. Except as otherwise specifically provided herein, no holder, as such, of this Warrant shall be entitled to vote or receive dividends or be deemed the holder of shares of the Company for any purpose, nor shall anything contained in this Warrant be construed to confer upon the holder hereof, as such, any of the rights of a stockholder of the Company or any right to vote, give or withhold consent to any corporate action (whether any reorganization, issue of stock, reclassification of stock, consolidation, merger, conveyance or otherwise), receive notice of meetings, receive dividends or subscription rights, or otherwise, prior to the issuance to the holder of this Warrant of the

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Warrant Shares which he, she, or it is then entitled to receive upon the due exercise of this Warrant. In addition, nothing contained in this Warrant shall be construed as imposing any liabilities on such holder to purchase any securities (upon exercise of this Warrant or otherwise) or as a stockholder of the Company, whether such liabilities are asserted by the Company or by creditors of the Company. Notwithstanding this Section 5, the Company will provide the holder of this Warrant with copies of the same notices and other information given to the stockholders of the Company generally,

contemporaneously with the giving thereof to the stockholders.

Section 6. REPRESENTATIONS OF HOLDER. The holder of this Warrant, by the acceptance hereof, represents that it is acquiring this Warrant and the Warrant Shares for its own account for investment only and not with a view towards, or for resale in connection with, the public sale or distribution of this Warrant or the Warrant Shares, except pursuant to sales registered or exempted under the Securities Act; provided, however, that by making the representations herein, the holder does not agree to hold this Warrant or any of the Warrant Shares for any minimum or other specific term and reserves the right to dispose of this Warrant and the Warrant Shares at any time in accordance with or pursuant to a registration statement or an exemption under the Securities Act. The holder of this Warrant further represents, by acceptance hereof, that, as of this date, such holder is an "accredited investor" as such term is defined in Rule 501(a) of Regulation D promulgated by the Securities and Exchange Commission under the Securities Act (an "Accredited Investor").

Section 7. OWNERSHIP AND TRANSFER.

(a) The Company shall maintain at its principal executive offices (or such other office or agency of the Company as it may designate by notice to the holder hereof), a register for this Warrant, in which the Company shall record the name and address of the person in whose name this Warrant has been issued, as well as the name and address of each transferee. The Company may treat the person in whose name any Warrant is registered on the register as the owner and holder thereof for all purposes, notwithstanding any notice to the contrary, but in all events recognizing any transfers made in accordance with the terms of this Warrant.

(b) This Warrant shall be assignable and transferable by the holder hereof without the consent of the Company.

(c) The Company is obligated to register the Warrant Shares (other than any Preferred Shares issuable in lieu of Common Stock) for resale under the Securities Act pursuant to the Registration Rights Agreement. The shares of Common Stock issuable upon exercise of this Warrant shall constitute Registrable Securities (as such term is defined in the Registration Rights Agreement). Each holder of this Warrant shall be entitled to all of the benefits afforded to a holder of any such Registrable Securities under the Registration Rights Agreement, and such holder, by its acceptance of this Warrant, agrees to be bound by and to comply with the terms and conditions of the Registration Rights Agreement applicable to such holder as a holder of such Registrable Securities.

Section 8. ADJUSTMENT OF WARRANT EXERCISE PRICE AND NUMBER OF SHARES. The Warrant Exercise Price and the number of shares of Common Stock or the number of shares of Preferred Shares, as the case may be, issuable upon exercise of this Warrant shall be adjusted from time to time as follows:

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(a) ADJUSTMENT OF WARRANT EXERCISE PRICE AND NUMBER OF SHARES UPON ISSUANCE OF COMMON STOCK OR PREFERRED SHARES. If and whenever on or after the Issuance Date and until February 1, 2003 (the "Initial Adjustment Termination Date"), the Company issues or sells, or in accordance with this Section 8(a) is deemed to have issued or sold, any shares of Common Stock (but excluding shares of Common Stock (collectively, the "Excluded Securities"): (i) deemed to have been issued by the Company in connection with an Approved Stock Plan; (ii) deemed to have been issued upon issuance of the Convertible Debentures or issued upon conversion of the Convertible Debentures; (iii) issued upon exercise of the Warrants; (iv) issued as Interest Payment Shares or Commitment Fee Payment Shares (as defined in the applicable Debenture); (v) issued upon exercise of Options or Convertible Securities which are outstanding on the date immediately preceding the Issuance Date, provided that such issuance of shares of Common Stock upon exercise of such Options or Convertible Securities is made pursuant to the terms of such Options or Convertible Securities in effect on the date immediately preceding the Issuance Date and

such Options or Convertible Securities are not amended after the date immediately preceding the Issuance Date; (vi) issued or deemed to have been issued by the Company upon the exchange of the Series A Preferred Stock of Sorrento Networks, Inc., a Delaware corporation not in excess of 19.99% of the issued and outstanding Common Stock as of the Issuance Date; (vii) issued to any bank or equipment lessor in transactions primarily not for equity financing purposes provided that the aggregate number of shares issued or deemed issued in any such transaction does not exceed the product of (A) 20% multiplied by (B) the initial principal amount of the loans in such transaction divided by the Closing Bid Price of the Common Stock on the trading day immediately prior to the date of such issuance or deemed issuance and (viii) issued pursuant to a Strategic Financing) for a consideration per share (the "New Securities Issuance Price") less than a price equal to the greater of (I) the Warrant Exercise Price in effect immediately prior to such time and (II) the Closing Bid Price of the Common Stock on the trading day immediately preceding such issuance date (the greater of (I) and (II), the "Applicable Price"), then immediately after such issue or sale:

- (i) if the NASD Approval has been obtained prior to the NASD Deadline, then to the extent that the New Securities Issuance Price is less than the Warrant Exercise Price then in effect, (A) if the Shareholder Approval has been obtained or the New Securities Issuance Price is greater than or equal to 90.91% of the Warrant Exercise Price as of the Issuance Date (as adjusted for stock splits, stock dividends, recapitalizations, combinations, reverse stock splits or other similar events, the "Issuance Date Market Price"), the Warrant Exercise Price then in effect shall be reduced to the New Securities Issuance Price or (B) if the Shareholder Approval has not been obtained and the New Securities Issuance Price is less than the Issuance Date Market Price, then (I) to the extent that the Warrant Exercise Price has not been previously reduced to the Issuance Date Market Price, it shall be so reduced and (II) each Warrant shall, in addition to the shares of Common Stock (or Preferred Shares in lieu of shares of Common Stock or fractions thereof) for which such Warrant is exercisable immediately prior to such issue or sale, also become exercisable (without any adjustment in the Warrant

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Exercise Price except as set forth in the immediately preceding clause (I)) for a number of additional shares of Common Stock (or a fraction thereof), which additional Shares shall be issuable for no additional consideration concurrently with such exercise for one share of Common Stock equal to (1) the fraction (x) the numerator of which is equal to the Issuance Date Market Price and (y) the denominator of which is equal to the New Securities Issuance Price minus (2) one; provided, however, that to the extent that as a result of such adjustment and all previous adjustments pursuant to this Section 8, the Company would be required to issue an aggregate number of additional shares of Common Stock in respect of the Convertible Debentures and the Warrants (excluding from such calculation all shares issuable pursuant to the terms of the Convertible Debentures and Warrants as of the Issuance Date) in excess of the Maximum Share Amount, then for each share of Common Stock in excess of the Maximum Share Amount that the Company would otherwise be required to issue upon exercise of the Warrants, it shall issue upon

exercise one-tenth of one Preferred Share; and

- (ii) if the NASD Approval has not been obtained prior to the NASD Deadline, then to the extent that the New Securities Issuance Price is less than the Warrant Exercise Price then in effect, (A) if the Shareholder Approval has been obtained or the New Securities Issuance Price is greater than or equal to the Issuance Date Market Price, the Warrant Exercise Price then in effect shall be reduced to the New Securities Issuance Price and (B) if the Shareholder Approval has not been obtained and the New Securities Issuance Price is less than the Issuance Date Market Price, then (I) to the extent that the Warrant Exercise Price has not been previously reduced to the Issuance Date Market Price, it shall be so reduced and (II) each Warrant shall, in addition to the shares of Common Stock (or Preferred Shares in lieu of shares of Common Stock or fractions thereof) for which such Warrant is exercisable immediately prior to such issue or sale, also become exercisable (without any adjustment in the Warrant Exercise Price except as set forth in the immediately preceding clause (I)) for a number of additional Preferred Shares (or fraction thereof), which additional Shares shall be issuable for no additional consideration concurrently with such exercise for one share of Common Stock equal to (1) the fraction (x) the numerator of which is equal to the Issuance Date Market Price and (y) the denominator of which is equal to the New Securities Issuance Price minus (2) one and then divided by (3) 10.

From and after the Initial Adjustment Termination Date, if the Company issues or sells, or in accordance with this Section 8, or is deemed to have issued or sold, any shares of Common Stock (other than any Excluded Securities) at a New Securities Issuance Price less than the Closing Bid Price on the trading day immediately prior to such issue or sale, then immediately after such issue or sale:

- (i) if the NASD Approval has been obtained prior to the NASD Deadline, the Warrant Exercise Price then in effect shall be reduced to an amount

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equal to (x) the Warrant Exercise Price in effect immediately prior to such issue or sale (y) multiplied by (1) a fraction (the "Adjustment Fraction") the numerator of which is equal to the sum of (I) the product derived by multiplying the Closing Bid Price by the number of shares of Common Stock Deemed Outstanding immediately prior to such issue or sale plus (II) the consideration, if any, received by the Company upon such issue or sale, and (2) the denominator of which is equal to the product derived by multiplying (I) such Closing Bid Price by (II) the number of shares of Common Stock Deemed Outstanding immediately after such issue or sale; provided (A) that the Warrant Exercise Price shall not be reduced to less than the Issuance Date Market Price unless the Shareholder Approval has been obtained; and (B) to the extent that multiplying the Warrant Exercise Price in effect immediately prior to such issue or sale by the Adjustment Fraction would result in an amount that is less than the Issuance Date Market Price, then (I) to the extent that the Warrant

Exercise Price has not been previously reduced to the Issuance Date Market Price, it shall be so reduced and (II) each Warrant shall, in addition to the shares of Common Stock (or Preferred Shares in lieu of shares of Common Stock or fractions thereof) for which such Warrant is exercisable immediately prior to such issue or sale, also become exercisable (without any adjustment in the Warrant Exercise Price except as set forth in the immediately preceding clause (I)) for a number of additional shares of Common Stock (or a fraction thereof), which additional Shares shall be issuable for no additional consideration concurrently with such exercise for one share of Common Stock equal to: (1) the inverse of the Adjustment Fraction; times (2) the fraction (x) the numerator of which is equal to the Issuance Date Market Price and (y) the denominator of which is equal to the Warrant Exercise Price in effect immediately prior to such issue or sale; minus (3) one; provided further, that to the extent that as a result of such adjustment and all previous adjustments pursuant to this Section 8, the Company would be required to issue an aggregate number of additional shares of Common Stock in respect of the Convertible Debentures and the Warrants (excluding from such calculation all shares issuable pursuant to the terms of the Convertible Debentures and Warrants as of the Issuance Date) in excess of the Maximum Share Amount, then for each share of Common Stock in excess of the Maximum Share Amount that the Company would otherwise be required to issue upon exercise of the Warrants, it shall issue upon exercise one-tenth of one Preferred Share; and

- (ii) if the NASD Approval has not been obtained prior to the NASD Deadline, then the Warrant Exercise Price then in effect shall be reduced to an amount equal to (x) the Warrant Exercise Price in effect immediately prior to such issue or sale (y) multiplied by the Adjustment Fraction; provided (A) that the Warrant Exercise Price shall not be reduced to less than the Issuance Date Market Price unless the Shareholder Approval has been obtained; and (B) to the extent that

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multiplying the Warrant Exercise Price in effect immediately prior to such issue or sale by the Adjustment Fraction would result in an amount that is less than the Issuance Date Market Price, then (I) to the extent that the Warrant Exercise Price has not been previously reduced to the Issuance Date Market Price, it shall be so reduced and (II) each Warrant shall, in addition to the shares of Common Stock (or Preferred Shares in lieu of shares of Common Stock or fractions thereof) for which such Warrant is exercisable immediately prior to such issue or sale, also become exercisable (without any adjustment in the Warrant Exercise Price except as set forth in the immediately preceding clause (I)) for a number of additional Preferred Shares (or a fraction thereof), which additional Shares shall be issuable for no additional consideration concurrently with such exercise for one share of Common Stock equal to: (1) the inverse of the Adjustment Fraction; times (2) the fraction (x) the numerator of which is equal to the

Issuance Date Market Price and (y) the denominator of which is equal to the Warrant Exercise Price in effect immediately prior to such issue or sale; minus (3) one; and divided by (4) 10.

(b) EFFECT ON WARRANT EXERCISE PRICE OF CERTAIN EVENTS. For purposes of determining the adjusted Warrant Exercise Price under Section 8(a) above, the following shall be applicable:

(i) ISSUANCE OF OPTIONS. If the Company in any manner grants any Options and the lowest price per share for which one share of Common Stock is issuable upon the exercise of any such Option or upon conversion, exchange or exercise of any Convertible Securities issuable upon exercise of such Option is less than the Applicable Price, or the Closing Bid Price of the Common Stock, as the case may be, then such share of Common Stock shall be deemed to be outstanding and to have been issued and sold by the Company at the time of the granting or sale of such Option for such price per share. For purposes of this Section 8(b)(i), the "lowest price per share for which one share of Common Stock is issuable upon the exercise of any such Option or upon conversion, exchange or exercise of any Convertible Securities issuable upon exercise of such Option" shall be equal to the sum of the lowest amounts of consideration (if any) received or receivable by the Company with respect to any one share of Common Stock upon granting or sale of the Option, upon exercise of the Option and upon conversion, exchange or exercise of any Convertible Security issuable upon exercise of such Option. No further adjustment of the Warrant Exercise Price shall be made upon the actual issuance of such Common Stock or of such Convertible Securities upon the exercise of such Options or upon the actual issuance of such Common Stock upon conversion, exchange or exercise of such Convertible Securities.

(ii) ISSUANCE OF CONVERTIBLE SECURITIES. If the Company in any manner issues or sells any Convertible Securities and the lowest price per share for which one share of Common Stock is issuable upon such conversion, exchange or exercise thereof is less than the Applicable Price, or the Closing Bid Price of the Common Stock, as the case may be, then such share of Common Stock shall be deemed to be outstanding and to have been issued and sold by the Company at the time of the issuance or sale of such Convertible Securities for such price per share. For the purposes of this Section 8(b)(ii), the "lowest price per share for

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which one share of Common Stock is issuable upon such conversion, exchange or exercise" shall be equal to the sum of the lowest amounts of consideration (if any) received or receivable by the Company with respect to any one share of Common Stock upon the issuance or sale of the Convertible Security and upon the conversion, exchange or exercise of such Convertible Security. No further adjustment of the Warrant Exercise Price shall be made upon the actual issuance of such Common Stock upon conversion, exchange or exercise of such Convertible Securities, and if any such issue or sale of such Convertible Securities is made upon exercise of any Options for which adjustment of the Warrant Exercise Price had been or are to be made pursuant to other provisions of this Section 8(b), no further adjustment of the Warrant Exercise Price shall be made by reason of such issue or sale.

(iii) CHANGE IN OPTION PRICE OR RATE OF CONVERSION. If the purchase or exercise price provided for in any Options, the additional consideration, if any, payable upon the issue, conversion, exchange or exercise of any Convertible Securities, or the rate at which any Convertible Securities are convertible into or exchangeable or exercisable for Common Stock changes at any time, the Warrant Exercise Price in effect at the time of such change shall be adjusted to the Warrant Exercise Price which would have been in effect at such time had such Options or Convertible Securities provided for such changed purchase price, additional consideration or changed conversion rate, as the case may be, at the time initially granted, issued or sold. For purposes of this Section 8(b)(iii), if the terms of any Option or Convertible Security that was outstanding as of the date of issuance of this Warrant are changed in the manner

described in the immediately preceding sentence, then such Option or Convertible Security and the Common Stock deemed issuable upon conversion, exchange or exercise thereof shall be deemed to have been issued as of the date of such change. No adjustment shall be made if such adjustment would result in an increase of the Warrant Exercise Price then in effect.

(c) EFFECT ON WARRANT EXERCISE PRICE OF CERTAIN EVENTS. For purposes of determining the adjusted Warrant Exercise Price under Sections 8(a) and 8(b), the following shall be applicable:

(i) CALCULATION OF CONSIDERATION RECEIVED. In case any option is issued in connection with the issue or sale of other securities of the Company, together comprising one integrated transaction in which no specific consideration is allocated to such Options by the parties thereto, the Options will be deemed to have been issued for a consideration of \$.01. If any Common Stock, Options or Convertible Securities are issued or sold or deemed to have been issued or sold for cash, the consideration received therefor will be deemed to be the gross amount received by the Company therefor. If any Common Stock, Options or Convertible Securities are issued or sold for a consideration other than cash, the amount of the consideration other than cash received by the Company will be the fair value of such consideration, except where such consideration consists of marketable securities, in which case the amount of consideration received by the Company will be the arithmetic average of the Closing Sale Prices of such securities during the ten (10) consecutive trading days ending on the date of receipt of such securities. If any Common Stock, Options or Convertible Securities are issued to the owners of the non-surviving entity in connection with any merger in which the Company is the surviving entity, the amount of consideration therefor will be deemed to be the fair value of such portion of the net assets and business of the non-surviving entity as is attributable to such Common Stock, Options or Convertible Securities, as the case may be. The

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fair value of any consideration other than cash or securities will be determined jointly by the Company and the holders of the Warrants representing at least two-thirds of the shares of Common Stock (and Preferred Shares, counting each Preferred Share solely for such purpose as 10 shares of Common Stock) issuable upon exercise of all of the Warrants then outstanding. If such parties are unable to reach agreement within ten (10) days after the occurrence of an event requiring valuation (the "Valuation Event"), the fair value of such consideration will be determined within five Business Days after the tenth (10th) day following the Valuation Event by an independent, reputable appraiser selected by the Company and the holders the Warrants representing of at least two-thirds of the shares of Common Stock (and Preferred Shares, counting each Preferred Share solely for such purpose as 10 shares of Common Stock) issuable upon exercise of all of the Warrants then outstanding. The determination of such appraiser shall be final and binding upon all parties absent manifest error and the fees and expenses of such appraiser shall be borne by the Company.

(ii) RECORD DATE. If the Company takes a record of the holders of Common Stock for the purpose of entitling them (1) to receive a dividend or other distribution payable in Common Stock, Options or Convertible Securities or (2) to subscribe for or purchase Common Stock, Options or Convertible Securities, then such record date will be deemed to be the date of the issue or sale of the shares of Common Stock deemed to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be. If after the occurrence of such record date the transaction or event for which such record date was set is abandoned or terminated, then any adjustments resulting from this Section 8(c)(ii) as it relates to such terminated or abandoned transaction or event shall be reversed as if such record date had never occurred.

(d) ADJUSTMENT OF WARRANT EXERCISE PRICE AND NUMBER OF SHARES UPON SUBDIVISION OR COMBINATION OF COMMON STOCK. If the Company at any time after the date of issuance of this Warrant subdivides (by any stock split, stock

dividend, recapitalization or otherwise) one or more classes of its outstanding shares of Common Stock into a greater number of shares, the Warrant Exercise Price in effect immediately prior to such subdivision will be proportionately reduced and the number of shares of Common Stock (or Preferred Shares, as the case may be) issuable upon exercise of this Warrant will be proportionately increased. If the Company at any time after the date of issuance of this Warrant combines (by combination, reverse stock split or otherwise) one or more classes of its outstanding shares of Common Stock into a smaller number of shares, the Warrant Exercise Price in effect immediately prior to such combination will be proportionately increased and the number of shares of Common Stock (or Preferred Shares, as the case may be) issuable upon exercise of this Warrant will be proportionately decreased. Any adjustment under this Section 8(d) shall become effective at the close of business on the date the subdivision or combination becomes effective.

(e) DISTRIBUTION OF ASSETS. If the Company shall declare or make any dividend or other distribution of its assets (or rights to acquire its assets) to holders of Common Stock, by way of return of capital or otherwise (including, without limitation, any distribution of cash, stock or other securities, property or options by way of a dividend, spin off, reclassification, corporate rearrangement or other similar transaction) (a "Distribution"), at any time after the issuance of this Warrant, then, in each such case:

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(i) the Warrant Exercise Price in effect immediately prior to the close of business on the record date fixed for the determination of holders of Common Stock entitled to receive the Distribution shall be reduced, effective as of the close of business on such record date, to a price determined by multiplying such Warrant Exercise Price by a fraction of which (A) the numerator shall be the Closing Bid Price of the Common Stock on the trading day immediately preceding such record date minus the value of the Distribution (as determined in good faith by the Company's Board of Directors) applicable to one share of Common Stock, and (B) the denominator shall be the Weighted Average Price of the Common Stock on the trading day immediately preceding such record date; and

(ii) either (A) the number of Warrant Shares issuable upon exercise of this Warrant shall be increased to a number of shares equal to the number of shares of Common Stock issuable immediately prior to the close of business on the record date fixed for the determination of holders of Common Stock entitled to receive the Distribution multiplied by the reciprocal of the fraction set forth in the immediately preceding clause (i), or (B) in the event that the Distribution is of common stock of a company whose common stock is traded on a national securities exchange or a national automated quotation system, then the holder of this Warrant shall receive an additional warrant to purchase Common Stock (and Preferred Shares issuable in lieu of Common Stock pursuant to Section 13), the terms of which shall be identical to those of this Warrant, except that such warrant shall be exercisable into the amount of the assets that would have been payable to the holder of this Warrant pursuant to the Distribution had the holder exercised this Warrant immediately prior to such record date and with an exercise price equal to the amount by which the exercise price of this Warrant was decreased with respect to the Distribution pursuant to the terms of the immediately preceding clause (i).

(f) OTHER EVENTS. If any event occurs of the type contemplated by the provisions of this Section 8 but not expressly provided for by such provisions (including, without limitation, the granting of stock appreciation rights, phantom stock rights or other rights with equity features), then the Company's Board of Directors will make an appropriate adjustment in the Warrant Exercise Price so as to protect the rights of the holders of the Warrants; provided that no such adjustment will increase the Warrant Exercise Price as otherwise determined pursuant to this Section 8.

(g) NOTICES.

(i) In each case of any adjustment or readjustment in the shares of Common Stock issuable upon the exercise of this Warrant, the Company at its expense shall promptly compute such adjustment or readjustment in accordance with the terms of this Warrant and prepare a certificate, signed by the Chairman of the Board, President or one of the Vice Presidents of the Company, and by the Chief Financial Officer, the Treasurer or one of the Assistant Treasurers of the Company, setting forth such adjustment or readjustment and showing in reasonable detail the method of calculation thereof and the facts upon which such adjustment or readjustment is based, including a statement of (a) the consideration received or to be received by the Company for any additional shares of Common Stock issued or sold or deemed to have been issued, (b) the number of shares of Common Stock outstanding or deemed to be outstanding, and (c) the Warrant Exercise Price in effect immediately prior to such issue or sale and as adjusted and readjusted by the terms hereof on account thereof. The Company shall forthwith mail a copy of each such certificate to each record or registered holder of a Warrant

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and shall, upon the written request at any time of any record or registered holder of a Warrant, furnish to such holder a like certificate. The Company shall also keep copies of all such certificates at its principal office and shall cause the same to be available for inspection at such office during normal business hours by any record or registered holder of a Warrant or any prospective purchaser of a Warrant designated by the record or registered holder thereof. Notwithstanding the foregoing, no adjustment in the Warrant Exercise Price shall be required unless such adjustment would require an increase or decrease of at least \$.01 in such price; provided, however, that any adjustments which by reason of this sentence are not required to be made shall be carried forward and taken into account in any subsequent adjustment required to be made hereunder. The Company shall, upon the request in writing of the holder (at the Company's expense), retain independent public accountants of recognized national standing selected by the Board of Directors of the Company to make any computation required in connection with adjustments under this Warrant, and a certificate signed by such firm absent manifest error shall be conclusive evidence of the correctness of such adjustment, which shall be binding on the holder and the Company.

(ii) The Company will give written notice to the holder of this Warrant at least ten (10) Business Days prior to the date on which the Company closes its books or takes a record (A) with respect to any dividend or distribution upon the Common Stock, (B) with respect to any pro rata subscription offer to holders of Common Stock or (C) for determining rights to vote with respect to any Organic Change (as defined below), dissolution or liquidation, provided that such information shall be made known to the public prior to or in conjunction with such notice being provided to such holder.

(iii) The Company will also give written notice to the holder of this Warrant at least ten (10) Business Days prior to the date on which any Organic Change, dissolution or liquidation will take place, provided that such information shall be made known to the public prior to or in conjunction with such notice being provided to such holder.

Section 9. PURCHASE RIGHTS; REORGANIZATION, RECLASSIFICATION, CONSOLIDATION, MERGER OR SALE. (a) In addition to any adjustments pursuant to Section 8 above, if at any time the Company grants, issues or sells any Options, Convertible Securities or rights to purchase stock, warrants, securities or other property pro rata to the record holders of any class of Common Stock (the "Purchase Rights"), then the holder of this Warrant will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which such holder could have acquired if such holder had held the number of shares of Common Stock acquirable upon complete exercise of this Warrant immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights.

(b) Any recapitalization, reorganization, reclassification, consolidation, merger, sale of all or substantially all of the Company's assets to another Person or other transaction which is effected in such a way that holders of Common Stock are entitled to receive (either directly or upon subsequent liquidation) stock, securities or assets with respect to or in exchange for Common Stock (except an unsolicited tender offer to which the Company is not a party) is referred to herein as "Organic Change." Prior to the consummation of any (i) sale of all or substantially all of the Company's assets to an acquiring Person or (ii) other Organic Change

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following which the Company is not a surviving entity, the Company will secure from the Person purchasing such assets or the successor resulting from such Organic Change (in each case, the "Acquiring Entity") written agreement (in form and substance reasonably satisfactory to the holders of Warrants representing at least two-thirds of the shares of Common Stock (and Preferred Shares, counting each Preferred Share solely for such purpose as 10 shares of Common Stock) issuable upon exercise of the Warrants then outstanding) to deliver to each holder of Warrants in exchange for such Warrants, a security of the Acquiring Entity or its parent evidenced by a written instrument substantially similar in form and substance to this Warrant and reasonably satisfactory to the holders of the Warrants (including, an adjusted warrant exercise price equal to the value for the Common Stock reflected by the terms of such consolidation, merger or sale, and exercisable for a corresponding number of shares of Common Stock acquirable and receivable upon exercise of the Warrants (without regard to any limitations on exercises), if the value so reflected is less than the Warrant Exercise Price in effect immediately prior to such consolidation, merger or sale). Prior to the consummation of any other Organic Change, the Company shall make appropriate provision (in form and substance reasonably satisfactory to the holders of Warrants representing at least two-thirds of the shares of Common Stock (and Preferred Shares, counting each Preferred Share solely for such purpose as 10 shares of Common Stock) issuable upon exercise of the Warrants then outstanding) to insure that each of the holders of the Warrants will thereafter have the right to acquire and receive in lieu of or in addition to (as the case may be) the shares of Common Stock and fractional interests in Preferred Shares (and Preferred Shares, counting each Preferred Share solely for such purpose as 10 shares of Common Stock), immediately theretofore acquirable and receivable upon the exercise of such holder's Warrants (without regard to any limitations on exercises), such shares of stock, securities or assets that would have been issued or payable in such Organic Change with respect to or in exchange for the number of shares of Common Stock or Preferred Shares, as the case may be, which would have been acquirable and receivable upon the exercise of such holder's Warrant as of the date of such Organic Change (without taking into account any limitations or restrictions on the exercisability of this Warrant).

Section 10. LOST, STOLEN, MUTILATED OR DESTROYED WARRANT. If this Warrant is lost, stolen, mutilated or destroyed, the Company shall promptly, on receipt of an indemnification undertaking or other form of security reasonably acceptable to the Company (or in the case of a mutilated Warrant, the Warrant), issue a new Warrant of like denomination and tenor as this Warrant so lost, stolen, mutilated or destroyed. Notwithstanding the foregoing, if this Warrant is lost by, stolen from or destroyed by the original holder hereof, the affidavit of such original holder setting forth the circumstances of such loss, theft or destruction shall be accepted as satisfactory evidence thereof, and no indemnification bond or other security shall be required by the Company as a condition to the execution and delivery by the Company of a new Warrant to such original holder other than such original holder's unsecured written agreement to indemnify the Company.

Section 11. NOTICE. Any notices, consents, waivers or other communications required or permitted to be given under the terms of this Warrant must be in writing and will be deemed to have been delivered: (i) upon receipt, when delivered personally; (ii) upon receipt, when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party); or (iii) one (1) Business Day after deposit

with a nationally recognized overnight delivery service, in each case properly addressed to the party to receive the same. If notice is to be sent to the Company, the holder shall use its reasonable best

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efforts to provide additional copies to the individuals listed below; provided, however, that the failure of such holder to send such additional copies shall in no way limit the effectiveness of any notice sent to the Company to the attention of the General Counsel as provided for below. The addresses and facsimile numbers for such communications shall be:

If to the Company:

Sorrento Networks Corporation
9990 Mesa Rim Road
San Diego, California 92121
Telephone: 858-558-3960
Facsimile: 858-558-3974
Attention: General Counsel

With a copy to:

Greenbaum, Rowe, Smith, Ravin, Davis & Himmel, LLP
99 Wood Avenue South
P.O. Box 5600
Woodbridge, New Jersey 07095
Telephone: 732-549-5600
Facsimile: 732-549-1881
Attention: W. Raymond Felton

If to the Transfer Agent:

American Stock Transfer & Trust Co.
6201 15th Avenue, 3rd Floor
Brooklyn, New York 11219
Telephone: 718-921-8254
Facsimile: 718-921-8254
Attention: Theresa Conrad

If to a holder of this Warrant, to it at the address and facsimile number set forth on the Schedule of Buyers to the Securities Purchase Agreement, with copies to such holder's representatives as set forth on such Schedule of Buyers, or at such other address and facsimile as shall be delivered to the Company upon the issuance or transfer of this Warrant. Each party shall provide five days' prior written notice to the other party of any change in address or facsimile number. Written confirmation of receipt (A) given by the recipient of such notice, consent, waiver or other communication, (B) mechanically or electronically generated by the sender's facsimile machine containing the time, date, recipient facsimile number and an image of the first page of such transmission or (C) provided by a nationally recognized overnight delivery service shall be rebuttable evidence of personal service, receipt by facsimile or receipt from a nationally recognized overnight delivery service in accordance with clause (i), (ii) or (iii) above, respectively.

Section 12. AMENDMENTS. This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party or holder hereof against which enforcement of such change, waiver, discharge or termination is

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sought and shall be binding on such party's or holder's assignees and transferees; provided; however, that any such change, waiver, discharge or termination that adversely impacts the holders of any of the Warrants other than this Warrant may be made only if the Company has obtained the written consent of the holders of Warrants representing at least two-thirds of the shares of Common Stock (and Preferred Shares, counting each Preferred Share solely for such purpose as 10 shares of Common Stock) issuable upon exercise of all of the Warrants then outstanding; provided; further, that no such action may increase the Warrant Exercise Price or decrease the number of shares or class of stock issuable upon exercise of any Warrants without the written consent of the holder of such Warrant.

Section 13. LIMITATION ON NUMBER OF SHARES OF COMMON STOCK ISSUED AS WARRANT SHARES. The Company shall not be obligated to issue shares of Common Stock as Warrant Shares upon exercise of this Warrant to the extent that the issuance of such shares of Common Stock would cause the Company to exceed that number of shares of Common Stock which the Company may issue upon exercise of this Warrant (the "Exchange Cap") without breaching the Company's obligations under the rules or regulations of the Principal Market, except that such limitation shall not apply in the event that the Company (a) obtains the approval of its stockholders as required by the Principal Market (or any successor rule or regulation) for issuances of Common Stock in excess of such amount or (b) obtains either the NASD Approval or a written opinion from outside counsel to the Company that such stockholder approval is not required, which opinion shall be satisfactory in form and substance to the holders of Warrants (voting in their sole discretion) representing at least two-thirds of the shares of Common Stock (and Preferred Shares, counting each Preferred Share solely for such purpose as 10 shares of Common Stock) issuable upon exercise of outstanding Warrants. Until such approval or written opinion is obtained, the holder of this Warrant shall not be issued, upon exercise of this Warrant, Warrant Shares in an amount greater than such holder's Cap Allocation Amount (as such term is defined in the Convertible Debenture). To the extent that, solely as a result of the Exchange Cap, the Company is not required to issue any number of shares of Common Stock that would otherwise be issuable upon exercise pursuant to the terms of the Warrants, then upon any exercise of the Warrants, the Company shall issue one-tenth of a Preferred Share for each share of Common Stock that would otherwise be issuable but for the Exchange Cap. In the event the Company is prohibited from issuing Warrant Shares as a result of the operation of this Section 13, on or after the date on which the Company holds its next stockholders meeting after determining that it is subject to the Exchange Cap, provided that at such meeting the Company does not receive the stockholder approval referred to in (a), then the Company shall redeem for cash those Warrant Shares which cannot be issued, at a price equal to the excess, if any, of the Market Price of the Common Stock above the Warrant Exercise Price of such Warrant Shares as of the date of the attempted exercise.

Section 14. DATE. The date of this Warrant is August 2, 2001 (the "Warrant Date"). This Warrant, in all events, shall be wholly void and of no effect after the close of business on the Expiration Date, except that notwithstanding any other provisions hereof, the provisions of Section 7(c) shall continue in full force and effect after such date as to any Warrant Shares or other securities issued upon the exercise of this Warrant.

Section 15. DESCRIPTIVE HEADINGS; GOVERNING LAW. The descriptive headings of the several sections and paragraphs of this Warrant are inserted for convenience only and do not constitute a part of this Warrant. The corporate laws of the State of New Jersey shall

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govern all issues concerning the relative rights of the Company and its stockholders. All other questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be governed by the internal laws of the State of New York, without giving effect to any choice of law or

conflict of law provision or rule (whether of the State of New York or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of New York.

Section 16. Judicial Proceedings. Any legal action, suit or proceeding brought against the Company with respect to this Warrant shall only be brought in any federal court of the Southern District of New York located in New York County, State of New York, or a state court in the borough of Manhattan, New York, and by execution and delivery of this Warrant, the Company hereby submits to the jurisdiction of such courts irrevocably and unconditionally waives any claim (by way of motion, as a defense or otherwise) of improper venue, that it is not subject personally to the jurisdiction of such court, that such courts are an inconvenient forum or that this Warrant or the subject matter may not be enforced in or by such court. The Company hereby irrevocably and unconditionally consents to the service of process of any of the aforementioned courts in any such action, suit or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, at its address set forth or provided for in Section 11, such service to become effective 10 days after such mailing. Nothing herein contained shall be deemed to affect the right of any party to serve process in any manner permitted by law or commence legal proceedings or otherwise proceed against any other party in any other jurisdiction to enforce judgments obtained in any action, suit or proceeding brought pursuant to this Section. The Company irrevocably submits to the exclusive jurisdiction of the aforementioned courts in such action, suit or proceeding.

[* * * *]

IN WITNESS WHEREOF, the Company has caused this Warrant to be signed by an authorized signatory as of the ____ day of _____, 2001.

SORRENTO NETWORKS CORPORATION

By: _____
Name: Joe R. Armstrong
Title: Chief Financial Officer

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EXHIBIT A TO WARRANT

EXERCISE NOTICE

TO BE EXECUTED BY THE REGISTERED HOLDER TO EXERCISE THIS WARRANT
SORRENTO NETWORKS CORPORATION

The undersigned holder hereby exercises the right to purchase _____ of the shares of Common Stock ("Common Shares") and _____ shares of Series F Preferred Stock ("Preferred Shares"), as the case may be (collectively, the "Warrant Shares"), of Sorrento Networks Corporation, a New Jersey corporation (the "Company"), evidenced by the attached Warrant (the "Warrant"). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Warrant.

1. Form of Warrant Exercise Price. The Holder intends that payment of the Warrant Exercise Price shall be made as:

_____ "Cash Exercise" with respect to _____ Common Shares and/or Preferred Shares; and/or

_____ "Cashless Exercise" with respect to _____ Common Shares and/or _____ Preferred Shares (to the extent permitted by the terms of the Warrant).

2. Payment of Warrant Exercise Price. In the event that the holder has elected a Cash Exercise with respect to some or all of the Warrant

Shares to be issued pursuant hereto, the holder shall pay the sum of \$_____ to the Company in accordance with the terms of the Warrant.

3. Private Placement Representations. The holder of this Warrant confirms the continuing validity of the representations set forth in Section 6 of the Warrant.

Date: _____, ____

Name of Registered Holder	Tax ID of Registered Holder (if applicable)

By: _____

Name: _____

Title: _____

ACKNOWLEDGMENT

The Company hereby acknowledges this Exercise Notice and hereby directs American Stock Transfer & Trust Co. to issue the above indicated number of shares of Common Stock or Preferred Shares, as the case may be, in accordance with the Irrevocable Transfer Agent Instructions dated August 2, 2001 from the Company and acknowledged and agreed to by American Stock Transfer & Trust Co.

SORRENTO NETWORKS CORPORATION

By: _____
Name:
Title:

EXHIBIT B TO WARRANT
FORM OF WARRANT

FOR VALUE RECEIVED, the undersigned does hereby assign and transfer to _____, Federal Identification No. _____, a warrant to purchase _____ shares of the common stock (or the shares of Series F Preferred Stock issuable in lieu thereof) of Sorrento Networks Corporation, a New Jersey corporation, represented by warrant certificate no. _____, standing in the name of the undersigned on the books of said corporation. The undersigned does hereby irrevocably constitute and appoint _____, attorney to transfer the warrants of said corporation, with full power of substitution in the premises.

Dated: _____, 200_

By: _____
Its: _____

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EXHIBIT 10.13

SECURITIES PURCHASE AGREEMENT

SECURITIES PURCHASE AGREEMENT (the "Agreement"), dated as of August 1, 2001, by and among Sorrento Networks Corporation, a New Jersey corporation, with headquarters located at 9990 Mesa Rim Road, San Diego, CA 92121 (the "Company"), and the investors listed on the Schedule of Buyers attached hereto (individually, a "Buyer" and collectively, the "Buyers").

WHEREAS:

A. The Company and the Buyers are executing and delivering this Agreement in reliance upon the exemption from securities registration afforded by Rule 506 of Regulation D ("Regulation D") as promulgated by the United States Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended (the "1933 Act") and Section 4(2) promulgated under the 1933 Act.

B. The Company has authorized the issuance of \$32.2 million principal amount of its 9.75% Senior Convertible Debentures due August 2, 2004 (collectively, the "Debentures"), which shall be convertible in accordance with the terms of the Debentures into: (i) shares of (x) the Company's common stock, par value \$0.30 per share (the "Common Stock"), or (ii) shares of the Company's Series F Preferred Stock, par value \$.01 per share (the "Preferred Shares") (to the extent Preferred Shares are issuable in lieu of Common Stock pursuant to the terms of the Debentures) (as converted into Common Stock or Preferred Shares, the "Conversion Shares"), all in accordance with the terms of the Debentures.

C. The Buyers severally wish to purchase, upon the terms and conditions stated in this Agreement (i) in the case of all Buyers except Crescent International Ltd. ("Crescent"), such Debentures in the form attached hereto as Exhibit A-1 in the respective amounts set forth opposite each Buyer's name on the Schedule of Buyers, and in the case of Crescent, such Debentures in the form attached hereto as Exhibit A-2 in the amount set forth opposite Crescent's name on the Schedule of Buyers, and (ii) warrants (the "Warrants") to purchase (i) up to one (1) share of Common Stock for each \$9.61 principal amount of Debentures purchased by such Buyer on the Closing Date or (to the extent Preferred Shares are issuable in lieu of Common Stock pursuant to the terms of the Warrants) (ii) one-tenth (1/10th) of a Preferred Share for each share of Common Stock (to the extent Preferred Shares are issuable in lieu of Common Stock pursuant to the terms of the Warrants) (as exercised collectively, the "Warrant Shares"), such Warrants to be in the form attached hereto as Exhibit B.

D. Contemporaneously with the execution and delivery of this Agreement, the parties hereto are executing and delivering a Registration Rights Agreement substantially in the form attached hereto as Exhibit C (the "Registration Rights Agreement") pursuant to which the Company has agreed to provide certain registration rights under the 1933 Act and the rules and regulations promulgated thereunder, and applicable state securities laws.

E. The location of defined terms in this Agreement is set forth on the Index of Terms attached hereto.

NOW THEREFORE, the Company and the Buyers hereby agree as follows:

1. PURCHASE AND SALE OF DEBENTURES AND WARRANTS.

a. Purchase of Debentures and Warrants. Subject to the satisfaction (or waiver) of the conditions set forth in Sections 6 and 7 below, the Company shall issue and sell to each Buyer, and each Buyer severally agrees to purchase from the Company, the respective principal amount of Debentures, together with the related Warrants, set forth opposite such Buyer's name on the Schedule of Buyers (the "Closing"). Notwithstanding the foregoing, in the event that at any time following the first anniversary of the Closing Date, the Conditions to Cancellation of Right to Exercise Warrants (as defined below) are satisfied, then the Company shall have the right to send a written notice (the "Warrant Cancellation Notice") to the Buyers on the Business Day (as defined below) immediately after the Measuring Period (as defined below) indicating that the right of the Buyers to further exercise their Warrant will terminate on the twentieth (20th) trading day (the "Warrant Cancellation Date") following receipt of such written notice as to the Warrant for which the Buyer has not delivered an Exercise Notice (as defined in the Warrants) as of such termination date.

"Conditions to Cancellation of Right to Exercise Warrants" means the following conditions: (i) the Registration Statement shall have been declared effective on or prior to the Effectiveness Deadline (as defined in the Registration Rights Agreement) and on each day during the period beginning on the effectiveness of the registration statement filed pursuant to Section 2(a) of the Registration Rights Agreement (the "Registration Statement") and ending on and including the Warrant Cancellation Date, the Registration Statement shall be effective and available for the sale of all of the Registrable Securities (as defined in the Registration Rights Agreement) required to be included in such Registration Statement and there shall not have been any Grace Periods (as such term is defined in the Registration Rights Agreement); (ii) on each day during the period beginning on the Closing Date and ending on the Warrant Cancellation Date, the Common Stock is designated for quotation on the Nasdaq National Market ("NASDAQ") or The New York Stock Exchange, Inc. (the "NYSE") and shall not have been suspended from trading on such market or exchange (other than suspensions of not more than one day and occurring prior to the Warrant Cancellation Date due to business announcements by the Company) nor shall delisting or suspension by such market or exchange be threatened or pending either (A) in writing by such market or exchange or (B) by falling below the minimum listing maintenance requirements of such market or exchange; (iii) during the period beginning on the Closing Date and ending on and including the Warrant Cancellation Date, there shall not have occurred (A) an event constituting a Triggering Event (as defined in the Debentures) or Event of Default (as defined in the Debentures), (B) an event that with the passage of time and without being cured would constitute a Triggering Event, or (C) the public announcement of a pending, proposed or intended Change of Control (as defined in the Debentures), unless such pending, proposed or intended Change of Control has been terminated, abandoned or consummated and the Company has publicly announced such termination, abandonment or consummation of such Change of Control; (iv) during the period beginning on the Closing Date and ending on and including the Warrant Cancellation Date, the Company shall have delivered Conversion Shares upon conversion of the Debentures and Warrant Shares upon exercise of the Warrants to the holders on a timely basis as set forth in the

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Debentures and Section 2(a) and 2(b) of the Warrants, respectively; (v) unless the NASD Approval (as defined in the Debentures) has been obtained on or prior to the NASD Deadline (as defined in the Debentures), on the earlier to occur of (A) the Stockholder Meeting Deadline and (B) the next meeting of the stockholders, the Company shall have received the Shareholder Approval; (vi) the Company shall not have failed to timely make any payments within five (5) Business Days of when such payment is due, whether as interest, fees or penalty payments, pursuant to this Agreement, the Debentures, the Registration Rights Agreement or the Warrants; and (vii) the Closing Sale Price (as defined in the Debentures) on each of any twenty (20) consecutive trading days (the "Measuring Period") following the first anniversary of the Closing Date and ending within five (5) Business Days of the delivery of the Warrant Cancellation Notice is equal to or greater than 175% of the Conversion Price (as defined in the Debentures) for the Debentures on the Closing Date (subject to adjustment for stock splits, stock dividends, recapitalizations, combinations, reverse stock splits or other similar events). "Business Day" means any day other than Saturday, Sunday or other day on which commercial banks in The City of New York are authorized or required by law to remain closed. The purchase price (the "Purchase Price") for the Debentures and the related Warrants being acquired by each Buyer shall be the principal amount of the Debentures.

b. The Closing. The date and time of the Closing (the "Closing Date") shall be 10:00 a.m., New York City time, on August 2, 2001 (or such later date as is mutually agreed to by the Company and the Buyers) subject to the satisfaction (or waiver) of the conditions set forth in Sections 6 and 7. The Closing shall occur on the Closing Date at the offices of Bingham Dana LLP, 399 Park Avenue, New York, New York 10022.

c. Form of Payment. On the Closing Date, (A) each Buyer shall pay the Company for the Debentures and the related Warrants to be issued and sold to such Buyer on the Closing Date, by wire transfer of immediately available funds in accordance with the Company's written wire instructions provided to the Buyers at least two (2) days prior to the Closing Date, less (1) the amount transferred by such Buyer as set forth on the Schedule of Buyers to an account (the "Escrow Account") maintained with the Bank of New York (the "Escrow Agent") pursuant to the terms of the Escrow Agreement dated August 1, 2001 among the Company, the Buyer and the Escrow Agent (the "Escrow Agreement") in the form attached hereto as Exhibit F and (2) any amount withheld at the Closing for expenses pursuant to Section 4(k), and (B) the Company shall deliver to each

Buyer Debentures (in the denominations as such Buyer shall request) representing the principal amount of Debentures which such Buyer is then purchasing hereunder, along with warrants representing the related Warrants, in each case, duly executed on behalf of the Company and registered in the name of such Buyer.

d. Escrow. Amounts held in the Escrow Account shall be released to the Company or the Buyers, as the case may be, as set forth in the Debentures and the Escrow Agreement.

2. BUYER'S REPRESENTATIONS AND WARRANTIES.

Each Buyer represents and warrants with respect to only itself that:

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a. Investment Purpose. Such Buyer (i) is acquiring the Debentures and the Warrants, (ii) upon conversion of the Debentures owned by it, will acquire the Conversion Shares then issuable and (iii) upon exercise of the Warrants held by it, will acquire the Warrant Shares issuable upon exercise thereof (the Debentures, the Conversion Shares, the Interest Payment Shares (as defined in those certain Debentures held by any Buyer other than Crescent), the Commitment Fee Payment Shares (as defined in those certain Debentures held by Crescent) the Warrants and the Warrant Shares collectively are referred to herein as the "Securities") for its own account for investment only and not with a present view towards, or for resale in connection with, the public sale or distribution thereof, except pursuant to sales registered or exempted under the 1933 Act; provided, however, that by making the representations herein, such Buyer does not agree to hold any of the Securities for any minimum or other specific term and reserves the right to dispose of the Securities at any time, provided further, however, that such disposition shall be in accordance with or pursuant to a registration statement or an exemption under the 1933 Act.

b. Accredited Investor Status. Such Buyer is an "accredited investor" as that term is defined in Rule 501(a)(3) of Regulation D under the 1933 Act.

c. Reliance on Exemptions. Such Buyer understands that the Securities are being offered and sold to it in reliance on specific exemptions from the registration requirements of the United States federal and state securities laws and that the Company is relying upon the truth and accuracy of, and such Buyer's compliance with, the representations, warranties, agreements, acknowledgments and understandings of such Buyer set forth herein in order to determine the availability of such exemptions and the eligibility of such Buyer to acquire the Securities.

d. Information. Such Buyer and its advisors, if any, have been furnished with all materials relating to the business, finances and operations of the Company and materials relating to the offer and sale of the Securities which have been requested by such Buyer. Such Buyer and its advisors, if any, have been afforded the opportunity to ask questions of the Company. Neither such inquiries nor any other due diligence investigations conducted by such Buyer or its advisors, if any, or its representatives shall modify, amend or affect such Buyer's right to rely on the Company's representations and warranties contained in this Agreement.

e. No Governmental Review. Such Buyer understands that no United States federal or state agency or any other government or governmental agency has passed on or made any recommendation or endorsement of the Securities or the fairness or suitability of the investment in the Securities nor have such authorities passed upon or endorsed the merits of the offering of the Securities.

f. Transfer or Resale. Such Buyer understands that except as provided in the Registration Rights Agreement: (i) the Securities have not been and are not being registered under the 1933 Act or any state securities laws, and may not be offered for sale, sold, assigned or transferred unless (A) subsequently registered thereunder, (B) such Buyer shall have delivered to the Company an opinion of counsel, in a generally acceptable form, to the effect that such Securities to be sold, assigned or transferred may be sold, assigned or transferred pursuant to an exemption from such registration, or (C) such Buyer provides the Company with reasonable

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assurance that such Securities can be sold, assigned or transferred pursuant to Rule 144 promulgated under the 1933 Act (or a successor rule thereto) ("Rule 144"); (ii) any sale of the Securities made in reliance on Rule 144 may be made only in accordance with the terms of Rule 144 and further, if Rule 144 is not applicable, any resale of the Securities under circumstances in which the seller (or the person through whom the sale is made) may be deemed to be an underwriter (as that term is defined in the 1933 Act) may require compliance with some other exemption under the 1933 Act or the rules and regulations of the SEC thereunder; and (iii) neither the Company nor any other person is under any obligation to register the Securities under the 1933 Act or any state securities laws or to comply with the terms and conditions of any exemption thereunder. The Securities may be pledged in connection with a bona fide margin account or other loan secured by the Securities.

g. Legends. Such Buyer understands that the Debentures and Warrants and, until such time as the sale of the Conversion Shares and the Warrant Shares have been registered under the 1933 Act as contemplated by the Registration Rights Agreement, the stock certificates representing the Conversion Shares and the Warrant Shares, except as set forth below, shall bear a restrictive legend in substantially the following form:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS OR (B) AN OPINION OF COUNSEL, IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR APPLICABLE STATE SECURITIES LAWS OR (II) UNLESS SOLD PURSUANT TO RULE 144 UNDER SAID ACT. THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN SECURED BY THE SECURITIES.

The legend set forth above shall be removed, and the Company shall reissue the relevant securities without such legend to the holder of the Securities upon which it is stamped, if, (i) such Securities are registered for resale under the 1933 Act, (ii) in connection with a sale transaction, such holder provides the Company with an opinion of counsel, in a generally acceptable form, to the effect that a public sale, assignment or transfer of the Securities may be made without registration under the 1933 Act, or (iii) such holder provides the Company with reasonable assurances that the Securities can be sold pursuant to Rule 144(k).

h. Authorization; Enforcement; Validity. This Agreement and the Registration Rights Agreement have been duly and validly authorized, executed and delivered on behalf of such Buyer and are valid and binding agreements of such Buyer enforceable against such Buyer in accordance with their terms, subject as to enforceability to general principles of

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equity and to applicable bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws relating to, or affecting generally, the enforcement of applicable creditors' rights and remedies.

i. Residency. Such Buyer is a resident of that country or state specified in its address on the Schedule of Buyers.

j. Series A Preferred Stock. The Buyers acknowledge that they are aware that the Company's Subsidiary, Sorrento Networks, Inc., a Delaware corporation (the "Sorrento Subsidiary") has outstanding a class of Series A Preferred Stock (the "Series A") and that certain holders of the Series A have exercised their right to put the Series A shares to the Sorrento Subsidiary pursuant to an Investors Rights Agreement dated March 3, 2000 among the Sorrento Subsidiary and all such holders.

3. REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to each of the Buyers that:

a. Organization and Qualification. The Company and its "Subsidiaries" (which for purposes of this Agreement means any entity in which the Company, directly or indirectly, owns 25% or more of the capital stock or other equity or similar interests or owns capital stock or holds an equity or similar interest which ownership entitles the Company to elect 25% or more of the board of directors or similar governing body of such entity) are corporations or limited liability companies duly organized and validly existing in good standing under the laws of the jurisdiction in which they are incorporated or organized, and have the requisite corporate or other power and authorization to own their properties and to carry on their business as now being conducted. Each of the Company and its Subsidiaries is duly qualified as a foreign corporation or limited liability company to do business and is in good standing in every jurisdiction in which its ownership of property or the nature of the business conducted by it makes such qualification necessary, except to the extent that the failure to be so qualified or be in good standing would not have a Material Adverse Effect. As used in this Agreement, "Material Adverse Effect" means any material adverse effect on the business, properties, assets, operations, results of operations, prospects or condition (financial or otherwise) of the Company, individually, or of the Company and its Subsidiaries, if any, taken as a whole, or on the transactions contemplated hereby or by the agreements and instruments to be entered into in connection herewith, or on the authority or ability of the Company to perform its obligations under the Transaction Documents (as defined below). A complete list of entities in which the Company, directly or indirectly, owns capital stock or holds an equity or similar interest is disclosed in the Company's 10K filing.

b. Authorization; Enforcement; Validity. The Company has the requisite corporate power and authority to enter into and perform its obligations under this Agreement, the Debentures, the Warrants, the Registration Rights Agreement, the Irrevocable Transfer Agent Instructions (as defined in Section 5) and each of the other agreements entered into by the parties hereto in connection with the transactions contemplated by this Agreement (collectively, the "Transaction Documents"), and to issue the Securities in accordance with the terms hereof and thereof. The execution and delivery of the Transaction Documents by the Company and the

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consummation by it of the transactions contemplated hereby and thereby, including, without limitation, the issuance of the Debentures, the reservation for issuance and the issuance of the Conversion Shares issuable upon conversion thereof, the issuance of the Warrants and the reservation for issuance and the issuance of the Warrant Shares issuable upon exercise of the Warrants, have been duly authorized by the Company's Board of Directors and no further consent or authorization is required by the Company, its Board of Directors or its stockholders. The Transaction Documents have been duly executed and delivered by the Company. The Transaction Documents constitute the valid and binding obligations of the Company enforceable against the Company in accordance with their terms, except as such enforceability may be limited by general principles of equity or applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally, the enforcement of creditors' rights and remedies.

c. Capitalization. As of the date hereof, the capitalization of the Company, including its authorized capital stock, the number of shares issued and outstanding, the number of shares issuable and reserved for issuance pursuant to Company's stock plans and the number of shares issuable and reserved for issuance pursuant to the securities exercisable for, or convertible into or exchangeable for, any shares of Common Stock is set forth in Schedule 3(c) hereto. All of such outstanding shares have been, or upon issuance will be, validly issued and are fully paid and nonassessable, except for certain option exercises for which consideration has not yet been received as disclosed on the Company's 10-K as of January 31, 2001. Except as disclosed in Schedule 3(c), (A) no shares of the Company's capital stock are subject to preemptive rights or any other similar rights (arising under New Jersey law, California law, the Company's Certificate of Incorporation or By-laws or any agreement or instrument to which the Company is a party) or any liens or encumbrances granted or created by the Company; (B) there are no outstanding options, warrants, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into, any shares of capital stock of the Company or any of its Subsidiaries, or contracts, commitments, understandings or arrangements by which the Company or any of its Subsidiaries is or may become bound to issue additional shares of capital stock of the Company or any of its Subsidiaries or options, warrants, scrip, rights to subscribe to, calls or

commitments of any character whatsoever relating to, or securities or rights convertible into, any shares of capital stock of the Company or any of its Subsidiaries; (C) there are no outstanding material debt securities, notes, credit agreements, credit facilities or other agreements, documents or instruments evidencing indebtedness of the Company or any of its subsidiaries or by which the Company or any of its subsidiaries is or may become bound except as reported in the Company's annual report on Form 10K for the year ended January 31, 2001 and quarterly report on form 10Q for the quarter ended April 30, 2001; (D) there are no agreements or arrangements under which the Company or any of its Subsidiaries is obligated to register the sale of any of their securities under the 1933 Act (except the Registration Rights Agreement); (E) there are no outstanding securities or instruments of the Company or any of its Subsidiaries which contain any redemption or similar provisions, and there are no contracts, commitments, understandings or arrangements by which the Company or any of its Subsidiaries is or may become bound to redeem a security of the Company or any of its Subsidiaries except for the put right of the Series A shares in the Sorrento Subsidiary which has been exercised and is solely the obligation of the Sorrento Subsidiary; (F) there are no securities or instruments containing anti-dilution or similar provisions that will be triggered by the issuance of the Securities as described in this Agreement; (G) the Company does not have

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any stock appreciation rights or "phantom stock" plans or agreements or any similar plan or agreement and (H) the Company and its Subsidiaries have no liabilities or obligations required to be disclosed in the SEC Documents (as defined herein) but not so disclosed in the SEC Documents, other than those incurred in the ordinary course of the Company's or its Subsidiaries' respective businesses since January 31, 2001 and which, individually or in the aggregate, do not or would not have a Material Adverse Effect on the Company and its Subsidiaries taken as a whole. The Company has furnished to each Buyer true and correct copies of the Company's Certificate of Incorporation, as amended and as in effect on the date hereof (the "Certificate of Incorporation"), and the Company's By-laws, as amended and as in effect on the date hereof (the "By-laws"), and the terms of all securities convertible into or exercisable or exchangeable for Common Stock and the material rights of the holders thereof in respect thereto except for stock options granted under any benefit plan or stock option plan of the Company approved by the Board of Directors of the Company. The Company specifically represents, warrants and agrees that, in accordance with the Company's Rights Agreement which has been authorized by its Board of Directors but not yet implemented (the "Rights Plan"), regardless of the number of Conversion Shares and Warrant Shares of which each Buyer is deemed the Beneficial Owner (as defined in the Rights Plan), none of the Buyers is intended to be or will be deemed to be an Acquiring Person within the meaning of the Rights Plan because of the acquisition of the Securities (including the Conversion Shares and Warrant Shares) pursuant to this Agreement, and the acquisition of the Securities (including the Conversion Shares and Warrant Shares) pursuant to this Agreement, shall not, under any circumstances, trigger a Distribution Date within the meaning of the Rights Plan; provided, however, that only Securities (including the Conversion Shares and Warrant Shares) acquired pursuant to this Agreement shall be deemed excluded from the number of shares of Common Stock deemed beneficially owned by each Buyer in determining whether such Buyer is an Acquiring Person within the meaning of the Rights Plan.

d. Issuance of Securities. The Securities are duly authorized and, upon issuance in accordance with the terms of the applicable Transaction Documents, shall be (i) validly issued, fully paid and non-assessable and (ii) free from all taxes, liens and charges with respect to the issuance thereof, and shall not be subject to pre-emptive rights or other similar rights of stockholders of the Company. As of the Closing, at least 11,731,437 shares of Common Stock (subject to adjustment pursuant to the Company's covenant set forth in Section 4(f) below) will have been duly authorized and reserved for issuance upon conversion of the Debentures and exercise of the Warrants. Upon conversion or issuance in accordance with the Debentures or the Warrants, as applicable, the Conversion Shares, the Interest Payment Shares, the Commitment Fee Payment Shares and the Warrant Shares, as the case may be, will be validly issued, fully paid and non-assessable and free from all taxes, liens and charges with respect to the issue thereof, with the holders being entitled to all rights accorded to a holder of Common Stock. Based, in part, on reliance on the representations and warranties of each of the Buyers in the Transaction Documents, the issuance by the Company of the Securities is exempt from registration under the 1933 Act.

e. No Conflicts. The execution, delivery and performance of the Transaction Documents by the Company and the consummation by the Company of the transactions contemplated hereby and thereby (including, without limitation, the

reservation for issuance and issuance of the Conversion Shares and the Warrant Shares) will not (i) result in a

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violation of the Certificate of Incorporation or the By-laws; (ii) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any material agreement, indenture or instrument to which the Company or any of its Subsidiaries is a party; or (iii) result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws and regulations and the rules and regulations of the Principal Market (as defined below)) applicable to the Company or any of its Subsidiaries or by which any property or asset of the Company or any of its Subsidiaries is bound or affected. Neither the Company nor its Subsidiaries is in violation of any term of or in default under its Certificate of Incorporation, By-laws or their organizational charter or by-laws, respectively. Except as disclosed in Schedule 3(e), neither the Company nor any of its Subsidiaries is in violation of any term of or in default under any contract, agreement, mortgage, indebtedness, indenture, instrument, judgment, decree or order or any statute, rule or regulation applicable to the Company or its Subsidiaries, except where such violations and defaults would not result, either individually or in the aggregate, in a Material Adverse Effect. The business of the Company and its Subsidiaries is not being conducted, and shall not be conducted, in violation of any law, ordinance or regulation of any governmental entity, except where such violations would not result, either individually or in the aggregate, in a Material Adverse Effect. Except as specifically contemplated by this Agreement, as required under the 1933 Act, or as required by Blue Sky filings, the Company is not required to obtain any consent, authorization or order of, or make any filing or registration with, any court or governmental agency or any regulatory or self-regulatory agency in order for it to execute, deliver or perform any of its obligations under or contemplated by the Transaction Documents. Except as disclosed in Schedule 3(e), all consents, authorizations, orders, filings and registrations which the Company is required to obtain pursuant to the preceding sentence have been obtained or effected on or prior to the date hereof. The Company and its Subsidiaries are unaware of any facts or circumstances which might give rise to any of the foregoing. The Company is not in violation of the listing requirements of the Principal Market, and has no actual knowledge of any facts which would reasonably lead to delisting or suspension of the Common Stock by the Principal Market in the foreseeable future.

f. SEC Documents; Financial Statements. Since January 31, 1999, the Company has filed all reports, schedules, forms, statements and other documents required to be filed by it with the SEC pursuant to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "1934 Act") (all of the foregoing filed prior to the date hereof and all exhibits included therein and financial statements and schedules thereto and documents incorporated by reference therein being hereinafter referred to as the "SEC Documents"). As of the date of filing of such SEC Documents, such SEC Documents, as they may have been subsequently amended by filings made by the Company with the SEC prior to the date hereof, complied in all material respects with the requirements of the 1934 Act and the rules and regulations of the SEC promulgated thereunder applicable to the SEC Documents. None of the SEC Documents, as of the date filed and as they may have been subsequently amended by filings made by the Company with the SEC prior to the date hereof, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. As of their respective dates, the financial statements of the Company included in the SEC Documents complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto. Such

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financial statements have been prepared in accordance with generally accepted accounting principles, consistently applied, during the periods involved (except

(i) as may be otherwise indicated in such financial statements or the notes thereto, or (ii) in the case of unaudited interim statements, to the extent they may exclude footnotes or may be condensed or summary statements) and fairly present in all material respects the financial position of the Company as of the dates thereof and the results of its operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments). No other information provided by or on behalf of the Company to any Buyer which is not included in the SEC Documents, including, without limitation, information referred to in Section 2(d), contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they are or were made, not misleading. Neither the Company nor any of its Subsidiaries nor any of their officers, directors, employees or agents have provided the Buyers with any material, nonpublic information. As of the date hereof, the Company meets the requirements for use of Form S-3 for registration of the resale of Registrable Securities (as defined in the Registration Rights Agreement). The Company is not required to file and will not be required to file any agreement, note, lease, mortgage, deed or other instrument entered into prior to the date hereof and to which the Company is a party or by which the Company is bound which has not been previously filed as an exhibit to its reports filed with the SEC under the 1934 Act.

g. Absence of Certain Changes. Except as disclosed in the Company's Annual Report on Form 10-K for the year ended January 31, 2001 or Quarterly Report on Form 10-Q for the period ended April 30, 2001, since January 31, 2001, there has been no change or development that has had or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. The Company has not taken any steps, and does not currently expect to take any steps, to seek protection pursuant to any bankruptcy law nor does the Company or any of its Subsidiaries have any knowledge or reason to believe that its creditors intend to initiate involuntary bankruptcy proceedings or any actual knowledge of any fact which would reasonably lead a creditor to do so. Except as disclosed in the Company's Annual Report on Form 10-K for the year ended January 31, 2001 or the Quarterly Report on Form 10-Q for the period ended April 30, 2001, since January 31, 2001, the Company has not declared or paid any dividends, and as of the date hereof, has not sold any assets, individually or in the aggregate, in excess of \$500,000 outside of the ordinary course of business or had capital expenditures, individually or in the aggregate, in excess of \$3,000,000.

h. Absence of Litigation. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the Company or any of its Subsidiaries, threatened against or affecting the Company, the Common Stock or any of the Company's Subsidiaries or any of the Company's or the Company's Subsidiaries' officers or directors in their capacities as such, except as expressly set forth in Schedule 3(h) or, with respect to the Company and its Subsidiaries, to the extent that any such action or threatened action does not set forth potential liability, claims or charges individually in excess of \$500,000, or in the aggregate in excess of \$2,000,000. Except as set forth in Schedule 3(h), to the knowledge of the Company, none of the directors or officers of the Company have been a party to any securities related litigation during the past five years. To the best knowledge of the Company, Schedule 3(h) contains a complete list and summary description of any pending, or to the knowledge of the

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Company, threatened proceeding against or affecting the Company or any of its Subsidiaries, without regard to whether it could have a Material Adverse Effect.

i. Acknowledgment Regarding Buyer's Purchase of Securities. The Company acknowledges and agrees that each of the Buyers is acting solely in the capacity of an arm's length purchaser with respect to the Transaction Documents and the transactions contemplated hereby and thereby. The Company further acknowledges that each Buyer is not acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to the Transaction Documents and the transactions contemplated hereby and thereby and any advice given by any of the Buyers or any of their respective representatives or agents in connection with the Transaction Documents and the transactions contemplated hereby and thereby is merely incidental to such Buyer's purchase of the Securities. The Company further represents to each Buyer that the Company's decision to enter into the Transaction Documents has been based solely on the independent evaluation by the Company and its representatives.

j. No Undisclosed Events, Liabilities, Developments or Circumstances. Except for the issuance of the Debentures and the Warrants contemplated by this Agreement, no event, liability, development or circumstance has occurred or exists with respect to the Company or its Subsidiaries or their respective business, properties, operations or financial condition, that would be required to be disclosed by the Company under applicable securities laws and which has not been publicly disclosed.

k. No General Solicitation. Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has engaged in any form of general solicitation or general advertising (within the meaning of Regulation D under the 1933 Act) in connection with the offer or sale of any of the Securities.

l. No Integrated Offering. Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances that would require registration of the issuance by the Company of any of the Securities under the 1933 Act or cause this offering of any of the Securities to be integrated with prior offerings by the Company for purposes of the 1933 Act or, except as set forth on Schedule 3(1), any applicable stockholder approval provisions, including, without limitation, under the rules and regulations of any exchange or automated quotation system on which any of the securities of the Company are listed or designated, nor will the Company or any of its Subsidiaries take any action or steps that would require registration of the issuance by the Company of any of the Securities under the 1933 Act or, except as set forth on Schedule 3(1), cause the offering of the Securities to be integrated with other offerings.

m. Employment Matters; ERISA Matters. No executive officer (as defined in Rule 501(f) of the 1933 Act) has notified the Company that such officer intends to leave the Company or otherwise terminate such officer's employment with the Company. No executive officer, to the best knowledge of the Company and its Subsidiaries, is or is now expected to be, in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement, non-competition agreement, or any other contract or agreement or any restrictive covenant, and the continued employment of each such

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executive officer does not subject the Company or any of its Subsidiaries to any liability with respect to any of the foregoing matters. The Company and its Subsidiaries are in compliance with all federal, state, local and foreign laws and regulations respecting employment and employment practices, terms and conditions of employment and wages and hours, except where failure to be in compliance would not, either individually or in the aggregate, have a Material Adverse Effect. There are no pending investigations involving the Company or any of its Subsidiaries by the U.S. Department of Labor or any other governmental agency responsible for the enforcement of such federal, state, local or foreign laws and regulations. There is no unfair labor practice charge or complaint against the Company or any of its Subsidiaries pending before the National Labor Relations Board or any strike, picketing, boycott, dispute, slowdown or stoppage pending or threatened against or involving the Company or any of its Subsidiaries. No representation question exists respecting the employees of the Company or any of its Subsidiaries, and no collective bargaining agreement or modification thereof is currently being negotiated by the Company or any of its Subsidiaries. No grievance or arbitration proceeding is pending under any expired or existing collective bargaining agreements of the Company or any of its Subsidiaries. No material labor dispute with the employees of the Company or any of its Subsidiaries exists or, to the knowledge of the Company, is imminent. Every employee benefit plan (whether or not subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA")) maintained or contributed to by the Company or any of member of its controlled group (determined in accordance with Section 4001(a)(14) of ERISA) (collectively the "Plans") is in full force and effect. Except for such failures that would not, either individually or in the aggregate, result in a Material Adverse Effect, each of the Plans have been maintained and administered in accordance with their terms, ERISA, the Internal Revenue Code of 1986, as amended (the "Code"), and other applicable laws. None of the Plans is subject to Title IV of ERISA and no Plan is a multiemployer plan (within the meaning of Section 3(37) of ERISA). Each Plan intended to qualify under Section 401(a) or 501(c)(9) of the Code has received a favorable determination or approval letter from the Internal Revenue Service regarding its qualification under such section and no event has occurred which cause any such Plan to lose its qualification.

n. Intellectual Property Rights. The Company and its Subsidiaries own or possess adequate rights or licenses to use all trademarks, trade names, service marks, service mark registrations, service names, patents, patent rights, copyrights, inventions, licenses, approvals, governmental authorizations, trade secrets and other intellectual property rights necessary to conduct their respective businesses as now conducted, except where the failure to own or possess such rights would not result, either individually or in the aggregate, in a Material Adverse Effect. None of the Company's trademarks, trade names, service marks, service mark registrations, service names, patents, patent rights, copyrights, inventions, licenses, approvals, governmental authorizations, trade secrets or other intellectual property rights have expired or terminated, or are expected to expire or terminate within two (2) years from the date of this Agreement, except where such expiration or termination would not result, either individually or in the aggregate, in a Material Adverse Effect. Except as would not have a Material Adverse Effect, the Company and its Subsidiaries do not have any knowledge of any infringement by the Company or its Subsidiaries of trademarks, trade names, service marks, service mark registrations, service names, patents, patent rights, copyrights, inventions, licenses, trade secrets or other intellectual property rights of others, or of any development of similar or identical trade secrets or technical information by others and, except as set forth on Schedule 3(n), and except as

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would not have a Material Adverse Effect, there is no claim, action or proceeding being made or brought against, or to the knowledge of the Company, being threatened against, the Company or its Subsidiaries regarding its trademarks, trade names, service marks, service mark registrations, service names, patents, patent rights, copyrights, inventions, licenses, trade secrets, or infringement of other intellectual property rights. The Company and its Subsidiaries have taken reasonable security measures to protect the secrecy, confidentiality and value of all of their intellectual properties.

o. Title. The Company and its Subsidiaries have good and marketable title in fee simple to all real property and good and marketable title to all personal property owned by them.

p. Environmental Laws. The Company and its Subsidiaries (A) are in compliance with any and all Environmental Laws, (B) have received all permits, licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses, and (C) are in compliance with all terms and conditions of any such permit, license or approval, except in each case where the failure of the Company and its subsidiaries would not, either individually or in the aggregate, have a Material Adverse Effect. Except as would not have a Material Adverse Effect, with respect to the Company and/or its Subsidiaries (1) there are no past or present releases of any material into the environment, actions, activities, circumstances, conditions, events, incidents, or contractual obligations which may give rise to any common law environmental liability or any liability under any Environmental Law and (2) neither the Company nor any of its Subsidiaries has received any notice with respect to the foregoing, nor is any action pending or, to the knowledge of the Company, threatened in connection with the foregoing. The term "Environmental Laws" means all federal, state, local or foreign laws relating to pollution or protection of human health or the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata), including, without limitation, laws relating to emissions, discharges, releases or threatened releases of chemicals, pollutants, contaminants, or toxic or hazardous substances or wastes (collectively, "Hazardous Materials") into the environment, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials, as well as all authorizations, codes, decrees, demands or demand letters, injunctions, judgments, licenses, notices or notice letters, orders, permits, plans or regulations issued, entered, promulgated or approved thereunder.

q. Insurance. The Company and each of its Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as management of the Company believes to be prudent and customary in the businesses in which the Company and its Subsidiaries are engaged. Neither the Company nor any such Subsidiary has been refused any insurance coverage sought or applied for and neither the Company nor any such Subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not have a Material Adverse Effect.

r. Regulatory Permits. Except for Permits (as defined below) the absence of which would not result, either individually or in the aggregate, in a Material Adverse

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Effect, the Company and its Subsidiaries possess all certificates, authorizations and permits issued by the appropriate federal, state or foreign regulatory authorities necessary to conduct their respective businesses (the "Permits"), and neither the Company nor any such Subsidiary has received any notice of proceedings relating to the revocation or modification of any such Permit.

s. Internal Accounting Controls. The Company and each of its Subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain asset accountability, (iii) access to assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

t. Dilutive Effect. The Company understands and acknowledges that the number of Conversion Shares and Warrant Shares issuable upon conversion of the Debentures and exercise of the Warrants, respectively, will increase in certain circumstances. The Company further acknowledges that its obligation to issue Conversion Shares upon conversion of the Debentures and the Warrant Shares upon exercise of the Warrants, in accordance with this Agreement and the respective terms of the Debentures and the Warrants is absolute and unconditional regardless of the dilutive effect that such issuance may have on the ownership interests of other stockholders of the company.

u. No Materially Adverse Contracts, Etc. Neither the Company nor any of its Subsidiaries is subject to any charter, corporate or other legal restriction, or any judgment, decree, order, rule or regulation which in the judgment of the Company's officers has or is expected in the future to have a Material Adverse Effect. Neither the Company nor any of its Subsidiaries is a party to any contract or agreement which in the judgment of the Company's officers has or is expected to have a Material Adverse Effect.

v. Tax Status. The Company and each of its Subsidiaries (i) has made or filed all federal, state and foreign income and all other tax returns, reports and declarations required by any jurisdiction to which it is subject, (ii) has paid all taxes and other governmental assessments and charges that are material in amount, shown or determined to be due on such returns, reports and declarations, except those being contested in good faith and for which the Company has made appropriate reserves for on its books, and (iii) has set aside on its books provisions reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations (referred to in clause (i) above) apply. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and the officers of the Company know of no basis for any such claim.

w. Transactions With Affiliates. Except as set forth on Schedule 3(w) and in the SEC Documents, and other than the grant of stock options described on Schedule 3(c), none of the officers, directors or employees of the Company is presently a party to any transaction with the Company or any of its Subsidiaries (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the

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furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any such officer, director or employee or, to the knowledge of the Company, any corporation, partnership, trust or other entity in which any such officer,

director, or employee has a substantial interest or is an officer, director, trustee or partner.

x. Application of Takeover Protections. The Company and its board of directors have taken all necessary action, if any, in order to render inapplicable any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or other similar anti-takeover provision under the Certificate of Incorporation, the laws of the state of its incorporation or the laws of any other state which is or could become applicable to the Buyers as a result of the transactions contemplated by this Agreement, including, without limitation, the Company's issuance of the Securities and the Buyers' ownership of the Securities.

y. Rights Agreement. Except as set forth on Schedule 3(y), the Company has not adopted a stockholder rights plan or similar arrangement relating to accumulations of beneficial ownership of Common Stock or a change in control of the Company.

z. No Other Agreements. The Company has not, directly or indirectly, made any agreements with any Buyers relating to the terms or conditions of the transactions contemplated by the Transaction Documents except as set forth in the Transaction Documents.

aa. Investment Company Status. The Company is not, and upon consummation of the sale of the Securities will not be, an "investment company," a company controlled by an "investment company" or an "affiliated person" of, or "promoter" or "principal underwriter" for, an "investment company" as such terms are defined in the Investment Company Act of 1940, as amended.

bb. Foreign Corrupt Practices. Neither the Company nor any of its Subsidiaries, nor any director, officer, agent, employee or other person acting on behalf of the Company or any Subsidiary has, in the course of his actions for, or on behalf of, the Company or any Subsidiary used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expenses relating to political activity; made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; violated or is in violation of any provision of the U.S. Foreign Corrupt Practices Act of 1977; or made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment to any foreign or domestic government official or employee.

cc. Solvency. The Company individually and together with its Subsidiaries on a consolidated basis (both before and after giving effect to the transactions contemplated by the Transaction Documents) is solvent (i.e., its assets have a fair market value in excess of the amount required to pay its probable liabilities on its existing debts as they become absolute and matured), and currently the Company has no information that would lead it to reasonably conclude that the Company would not have the ability, nor does it intend to take any action that would impair, its ability to pay its debts from time to time incurred in connection therewith as such debts mature.

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dd. Disclosure. All information relating to or concerning the Company or any of its Subsidiaries set forth in this Agreement and provided to the Buyer pursuant to Section 2(d) hereof and otherwise in connection with the transactions contemplated hereby is true and correct in all material respects as of the date of and delivery of such information and the Company has not omitted to state any material fact necessary in order to make the statements made herein or therein, in light of the circumstances under which they were made, not misleading. No event or circumstance has occurred or information exists with respect to the Company or any of its Subsidiaries or its or their business, properties, operations or financial conditions, which, under applicable law, rule or regulation, requires public disclosure or announcement by the Company but which has not been so publicly announced or disclosed (assuming for this purpose that the Company's reports filed under the 1934 Act are being incorporated into an effective registration statement filed by the Company under the 1933 Act).

4. COVENANTS

a. Best Efforts. Each party shall use its best efforts to timely satisfy each of the conditions to be satisfied by it as provided in Sections 6 and 7 of this Agreement.

b. Form D and Blue Sky. The Company agrees to file a Form D with respect to the Securities as required under Regulation D and to provide a copy thereof to each Buyer promptly after such filing. The Company shall, on or before the Closing Date, take such action as the Company shall reasonably determine is necessary in order to obtain an exemption for, or to qualify the Securities for, sale to the Buyers at the Closing pursuant to this Agreement under applicable securities or "Blue Sky" laws of the states of the United States, and shall provide evidence of any such action so taken to the Buyers on or prior to the Closing Date. The Company shall make all filings and reports relating to the offer and sale of the Securities required under applicable securities or "Blue Sky" laws of the states of the United States following the Closing Date.

c. Reporting Status. Until the later of (i) the date which is one year after the date as of which the Investors (as that term is defined in the Registration Rights Agreement) may sell all of the Conversion Shares and the Warrant Shares without restriction pursuant to Rule 144(k) promulgated under the 1933 Act (or successor thereto) and (ii) the date on which (A) the Investors shall have sold all the Conversion Shares and the Warrant Shares and (B) none of the Debentures or Warrants is outstanding (the "Reporting Period"), the Company shall (x) timely file all reports required to be filed with the SEC pursuant to the 1934 Act, and the Company shall not terminate its status as an issuer required to file reports under the 1934 Act even if the 1934 Act or the rules and regulations thereunder would otherwise permit such termination and (y) will use its best efforts to take all necessary action to maintain its ability to register securities on Form S-3.

d. Use of Proceeds. The Company will use the proceeds from the sale of the Debentures and the Warrants for general corporate purposes, except that none of the proceeds received from the Debentures shall be applied towards the payment of any obligations of the Sorrento Subsidiary with respect to the exercise of the put by the holders of the Series A.

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e. Financial Information. The Company agrees to file all reports, schedules, forms, statements and other documents required to be filed by it with the SEC pursuant to the reporting requirements of the 1934 Act. The financial statements of the Company will be prepared in accordance with generally accepted accounting principles, consistently applied, and will fairly present in all material respects the consolidated financial position of the Company and its consolidated Subsidiaries and results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments). The Company agrees to send the following to each Investor (as that term is defined in the Registration Rights Agreement) during the Reporting Period: (i) within two (2) days after the filing thereof with the SEC, a copy of its Annual Reports on Form 10-K, its Quarterly Reports on Form 10-Q, any Current Reports on Form 8-K and any registration statements (other than on Form S-8) or amendments filed pursuant to the 1933 Act, provided that if any such report is not filed with the SEC through EDGAR then the Company shall deliver a copy of such report to each Investor by facsimile on the same day it is filed with the SEC; (ii) on the same day as the release thereof, facsimile copies of all press releases issued by the Company or any of its Subsidiaries; and (iii) copies of any notices and other information made available or given to the stockholders of the Company generally, contemporaneously with the making available or giving thereof to the stockholders.

f. Reservation of Shares. The Company shall take all action necessary to at all times have authorized, and reserved for the purpose of issuance, no less than 150% of the number of shares of Common Stock needed to provide for the issuance of the Conversion Shares upon conversion of all of the Debentures and the Warrant Shares upon exercise of all of the Warrants (without regard to any limitations on conversions or exercise).

g. Listing. The Company shall promptly secure the listing of all of the Registrable Securities (as defined in the Registration Rights Agreement) upon each national securities exchange and automated quotation system, if any, upon which shares of Common Stock are then listed (subject to official notice of issuance) and shall maintain, so long as any other shares of Common Stock shall be so listed, such listing of all Registrable Securities from time to time issuable under the terms of the Transaction Documents. So long as any Securities are outstanding, the Company shall maintain the Common Stock's authorization for quotation on NASDAQ or listing on the NYSE (as applicable, the "Principal Market"). Neither the Company nor any of its Subsidiaries shall take any action which would be reasonably expected to result in the delisting or suspension of

the Common Stock from the Principal Market. The Company shall pay all fees and expenses in connection with satisfying its obligations under this Section 4(g).

h. Filing of Form 8-K. On or before 8:30 a.m., New York City time, on the Business Day following the Closing Date, the Company shall file a Current Report on Form 8-K with the SEC describing the terms of the transactions contemplated by the Transaction Documents and including as exhibits to such Current Report on Form 8-K this Agreement, the forms of Debentures, the form of Warrants and the Registration Rights Agreement, and the schedules hereto and thereto in the form required by the 1934 Act.

i. Corporate Existence. So long as a Buyer beneficially owns any Securities, the Company shall maintain its corporate existence and shall not sell all or substantially all of the Company's assets, except in the event of a merger or consolidation or sale

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of all or substantially all of the Company's assets, where the surviving or successor entity in such transaction (i) assumes the Company's obligations hereunder and under the agreements and instruments entered into in connection herewith and (ii) such surviving or successor entity or its parent into whose stock the Debentures and Warrants will be convertible or exercisable is a publicly traded corporation whose common stock is listed for trading on or quoted on NYSE or NASDAQ.

j. Pledge of Securities. The Company acknowledges and agrees that the Securities may be pledged in compliance with applicable securities laws by an Investor in connection with a bona fide margin agreement or other loan secured by the Securities. The pledge of Securities shall not be deemed to be a transfer, sale or assignment of the Securities hereunder, and no Investor effecting a pledge of Securities shall be required to provide the Company with any notice thereof or otherwise make any delivery to the Company pursuant to this Agreement or any other Transaction Document, including, without limitation, Section 2(f) of this Agreement; provided that an Investor and its pledgee shall be required to comply with the provisions of Section 2(f) hereof in order to effect a sale, transfer or assignment of Securities to such pledgee. The Company hereby agrees to execute and deliver such reasonable documentation as a pledgee of the Securities may reasonably request in connection with a pledge of the Securities to such pledgee by an Investor.

k. Expenses. Subject to Section 9(l) below, at the Closing, the Company shall pay the legal fees of Bingham Dana and Katten Munchin Zavis (special counsel to Deutsche Banc Alex Brown Inc.) and each Buyer's actual expenses out of the proceeds received at Closing. Prior to the Closing, each Buyer will submit to the Company an estimate of its actual expenses.

l. Good Standing. At the Closing, the Company shall deliver a good standing certificate to each of the Buyers, certifying the Company's qualification to do business and its good standing in the States of New Jersey and California as certified by the Treasurer of the State of New Jersey and the Secretary of State of the State of California, respectively.

m. Additional Debentures. For so long as any Buyer beneficially owns any Debentures, the Company shall not issue any other securities that would cause a breach or default under the Debentures.

n. Transactions With Affiliates. So long as Debentures are outstanding, the Company shall not, and shall cause each of its Subsidiaries not to, enter into, amend, modify or supplement, or permit any Subsidiary to enter into, amend, modify or supplement, any agreement, transaction, commitment or arrangement with any of its or any Subsidiary's officers, directors, persons who were officers or directors at any time during the previous two years, stockholders who beneficially own 5% or more of the Common Stock, or their affiliates, or with any individual related by blood, marriage or adoption to any such individual or with any entity in which any such entity or individual owns a 5% or more beneficial interest (each, a "Related Party"), except for (a) customary employment arrangements and benefit programs on reasonable terms, (b) any agreement, transaction, commitment or arrangement which is approved by a majority of the disinterested directors of the Company or (c) any agreement, transaction, commitment or arrangement on an arm's-length basis on terms no less favorable than terms

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which would have been obtainable from a person other than such Related Party. For purposes hereof, any director who is also an officer of the Company or any Subsidiary of the Company shall not be a disinterested director with respect to any such agreement, transaction, commitment or arrangement. "Affiliate" for purposes hereof means, with respect to any person or entity, another person or entity that, directly or indirectly, (i) has a 5% or more equity interest in that person or entity, (ii) has 5% or more common ownership with that person or entity, (iii) controls that person or entity, or (iv) shares common control with that person or entity. "Control" or "controls" for purposes hereof means that a person or entity has the power, direct or indirect, to conduct or govern the policies of another person or entity.

o. Acquisitions. Until the delivery by the Company to the Buyer of all shares of Common Stock upon conversion of the Debentures or all sums of cash upon redemption or repayment of the Debentures, as applicable, such that after such delivery upon any such conversion, redemption or repayment no more than \$5,000,000 in principal amount of the Debentures remain outstanding, other than in connection with business acquisitions where the aggregate cash consideration paid for all such transactions does not exceed \$1,000,000, the Company covenants and agrees that it will not enter into or complete any business acquisitions, whether stock or asset transactions.

p. Dividends and Distributions. Until the delivery by the Company to the Buyer of all shares of Common Stock upon conversion of the Debentures or all sums of cash upon redemption or repayment of the Debentures, as applicable, such that after such delivery upon any such conversion, redemption or repayment no more than \$500,000 in principal amount of the Debentures remain outstanding, the Company shall not make or fix a record date for the determination of holders of Common Stock or other securities entitled to receive a dividend or other distribution (special or otherwise).

q. Disclosure. From and after the date hereof, the Company will not provide to any Buyer any material non-public information.

r. Compliance with Law. The Company will conduct its business in compliance with all applicable laws, rules, ordinances and regulations of the jurisdictions in which it is conducting business, including, without limitation, all applicable local, state and federal environmental laws and regulations the failure to comply with which would have a Material Adverse Effect.

s. Insurance. The Company shall maintain liability, casualty and other insurance (subject to customary deductions and retentions) with responsible insurance companies against such risk of the types and in the amounts customarily maintained by companies of comparable size and operations to the Company.

t. No Integration. The Company will not conduct any future offering that will be integrated with the issuance of the Securities for purposes of the rules promulgated by the SEC or the Principal Market.

u. Buyers Covenant. Each of the Buyers covenants with respect to itself that from and after the execution of this Agreement (i) neither it nor its affiliates will purchase or

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sell shares of Common Stock prior to the Closing Date and (ii) it will purchase and sell the Securities in compliance with the rules and regulations of the SEC (except to the extent that such failure to comply results from the breach by the Company of any representation, warranty or covenant in the Transaction Documents).

v. Buy-Back. If the Registration Statement has not been declared effective by the SEC within one hundred eighty (180) days following the Closing Date, then each Buyer, in its sole discretion, may require the Company to re-purchase the Debentures held by it for an amount in cash equal to the Purchase Price plus all accrued interest which payment shall be made within ten (10) Business Days of the demand therefor.

w. Additional Issuances of Securities. The Company shall not without each Buyer's prior written approval, at any time on or before the 120th day following the date that the Registration Statement required to be filed pursuant to Section 2(a) of the Registration Rights Agreement is declared effective by the SEC, agree to issue or issue any Common Stock or other equity security or any other security convertible into or exchangeable or exercisable for Common Stock (including any debt financing with an equity component) or any other right to acquire any Common Stock (the "Convertible Securities") pursuant to Section 4(2) of the 1933 Act or an offering of equity securities (including any debt security with an equity component) under Regulation D or Regulation S of the 1933 Act or in any other private placement or enter into any equity issuing arrangement including an "equity line" or similar product if (A) the per share purchase price for the securities to be so issued or sold is less than the greater of (x) the Conversion Price (as defined in the Debentures) then in effect and (y) the Weighted Average Price (as defined in the Debentures) for the Measuring Period ending on the trading day immediately preceding the issuance date or date of applicable contract, as appropriate or (B) the conversion ratio for any such Convertible Securities may fluctuate, in whole or in part, based on or derived from or by reference to any trading price or other measure of value of Common Stock. The foregoing provisions shall not apply to issuances of Common Stock or Convertible Securities (1) in a consensual transaction to the holders of the Series A provided that (x) such issuance of Common Stock or Convertible Securities does not constitute more than 19.99% of the Company's outstanding Common Stock as of the Closing Date, and (y) such issuance is made pursuant to the terms of such Series A Convertible Preferred Stock of the Sorrento Subsidiary in effect on the date immediately preceding the date hereof and such Series A Convertible Preferred Stock of the Sorrento Subsidiary is not amended after the date immediately preceding the date hereof, (2) of up to 14,381,116 shares pursuant to Company authorized stock option plans (which number includes all options already granted), (3) of up to 1,000,000 shares (subject to adjustment for stock splits, stock dividends, stock combinations and similar transactions) pursuant to a Strategic Financing (as defined below), (4) upon the exercise of Convertible Securities issued prior to the date hereof and disclosed on Schedule 3(c) (the "Existing Securities"), provided, that such issuance is made pursuant to the terms of such Existing Securities existing on the date immediately preceding the date hereof and such Existing Securities are not amended after the date immediately preceding the date hereof, (5) to the seller in connection with an acquisition by the Company, so long as such issuances are not primarily for equity financing purposes and the issuance price per share is not less than the lower of the Closing Bid Price on the trading day immediately preceding the issuance date and the twenty (20) day trailing average of such Closing Bid Prices and (6) in a underwritten offering registered with the SEC under the 1933 Act (other than a shelf registration statement pursuant to Rule 415

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of the 1933 Act). A "Strategic Financing" shall mean the issuance of Common Stock or warrants to purchase Common Stock at a purchase price or an exercise price, as the case may be, that is not less than the Closing Bid Price of the Common Stock over the five (5) Business Days prior to issuance of such Common Stock or warrant, in connection with any strategic investor, strategic alliance in the telecommunications industry, marketing and promotional contract, vendor, lease, loan or similar arrangement (the primary purpose of which is not to raise equity capital); provided, that the aggregate number of shares of Common Stock which the Company may issue pursuant to this definition shall not exceed 1,000,000 shares (subject to adjustment for stock splits, stock dividends, stock combination and similar transactions); and provided, further that any such issuance in connection with a loan shall be less than 20% of the principal amount of such loan.

x. Series A Prohibitions. The Company covenants and agrees that none of the Debenture proceeds shall be used to satisfy any obligations to the holders of the Series A, including (without limitation) use any of the proceeds to pay any obligations arising out of the holders of the Series A exercise of their put right. In addition, the Company is prohibited from issuing (through stock or a convertible debt or equity instrument) more than 19.99% of its then outstanding Common Stock to satisfy the Sorrento Subsidiary's Series A put right obligations.

y. Sale of Subsidiary Capital Stock, etc. The Company covenants and agrees that it will not allow the Sorrento Subsidiary to enter into or undertake any transaction, arrangement or agreement (whether a consolidation, merger, issue or sale of Capital Stock or other securities, reorganization, voting

agreement or otherwise) which would cause a Change of Control (as defined in the Debenture) (collectively, the "Sorrento Subsidiary Sale"). For purposes hereof, the term "Capital Stock" shall mean any shares, interests, participations or other equivalents (howsoever designated) of corporate capital stock or any options, warrants or other rights to subscribe for, or to purchase, or to convert any property into, or to exchange any property for, any such corporate capital stock, options, warrants or other rights. The Company hereby agrees that any Sorrento Subsidiary Sale shall be deemed to be a Change of Control (as defined in the Debentures) of the Company pursuant to the Debentures.

z. Shareholder Approval. Unless the NASD Approval (as defined in the Debentures) has been obtained prior to the NASD Deadline, the Company shall (i) solicit a Shareholder Vote (as defined in the Debentures) for the purpose of approving the issuance of Common Stock upon conversion of the Debentures and exercise of the Warrants at a price per share less than the market value of the Common Stock as of the Closing Date on or prior to the earlier of (i) 120 days from the Closing Date (the "Stockholder Meeting Deadline") or (ii) the next meeting of the stockholders of the Company. The Company shall use its best efforts to solicit its stockholders' approval of such issuance of Common Stock upon conversion of the Debentures and exercise of the Warrants at a price per share less than the market value of the Common Stock as of the Closing Date, including the hiring of a nationally-recognized proxy solicitation firm to solicit such approval, and to cause the Board of Directors of the Company to recommend to the stockholders that they approve such proposal.

aa. The Company covenants and agrees that (1) it will not amend, alter, change, or otherwise modify any provision of the Escrow Agreement without the prior written consent of all of the Buyers and (2) it will not change the Escrow Agent without the prior

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written consent of Buyers holding at least two-thirds of the Outstanding Principal Amount (as defined in the Debentures) of the Debentures. The Company covenants to insure that \$10,244,635.87 will be on deposit with the Escrow Agent.

5. TRANSFER AGENT INSTRUCTIONS

The Company shall issue irrevocable instructions to its transfer agents, and any subsequent transfer agent, to issue certificates or credit shares to the applicable balance accounts registered in the name of each Buyer or its respective nominee(s), for the Conversion Shares and Warrant Shares in such amounts as specified from time to time by each Buyer to the Company upon conversion of the Debentures, or exercise of the Warrants, as applicable (the "Irrevocable Transfer Agent Instructions"). Prior to registration of the Conversion Shares and the Warrant Shares under the 1933 Act, all such certificates shall bear the restrictive legend specified in Section 2(g) of this Agreement. The Company warrants that no instruction other than the Irrevocable Transfer Agent Instructions referred to in this Section 5 and stop transfer instructions to give effect to Section 2(f) hereof (in the case of the Conversion Shares and the Warrant Shares, prior to registration of the Conversion Shares and the Warrant Shares under the 1933 Act) will be given by the Company to its transfer agent and that the Securities shall otherwise be freely transferable on the books and records of the Company as and to the extent provided in this Agreement, the Debentures, the Warrants and the Registration Rights Agreement. If a Buyer provides the Company with an opinion of counsel, in a generally acceptable form, to the effect that a public sale, assignment or transfer of Securities may be made without registration under the 1933 Act or the Buyer provides the Company with reasonable assurances that the Securities can be sold pursuant to Rule 144(k), the Company shall permit the transfer, and, in the case of the Conversion Shares and the Warrant Shares, promptly instruct its transfer agent to issue one or more certificates, or credit shares to one or more balance accounts at DTC, in such name and in such denominations as specified by such Buyer and without any restrictive legend. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Buyers by vitiating the intent and purpose of the transaction contemplated hereby. Accordingly, the Company acknowledges that the remedy at law for a breach of its obligations under this Section 5 will be inadequate and agrees, in the event of a breach or threatened breach by the Company of the provisions of this Section 5, that the Buyers shall be entitled, in addition to all other available remedies, to an order and/or injunction restraining any breach and requiring immediate issuance and transfer, without the necessity of showing economic loss and without any bond or other security being required.

6. CONDITIONS TO THE COMPANY'S OBLIGATION TO SELL

The obligation of the Company to issue and sell the Debentures and the Warrants to each Buyer at the Closing is subject to the satisfaction, at or before the Closing Date, of each of the following conditions, provided that these conditions are for the Company's sole benefit and may be waived by the Company at any time in its sole discretion by providing each Buyer with prior written notice thereof:

(i) Such Buyer shall have executed each of the Transaction Documents to which it is a party and delivered the same to the Company.

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(ii) Such Buyer shall have delivered to the Company the purchase price (less the amounts withheld pursuant to Section 4(k)) for the Debentures and the Warrants being purchased by such Buyer at the Closing, by wire transfer of immediately available funds pursuant to the wire instructions provided by the Company.

(iii) The representations and warranties of such Buyer shall be true and correct as of the date when made and as of the Closing Date as though made at that time (except for representations and warranties that speak as of a specific date), and such Buyer shall have performed, satisfied and complied with the covenants, agreements and conditions required by the Transaction Documents to be performed, satisfied or complied with by such Buyer at or prior to the Closing Date.

7. CONDITIONS TO EACH BUYER'S OBLIGATION TO PURCHASE

The obligation of each Buyer hereunder to purchase the Debentures and the Warrants from the Company at the Closing is subject to the satisfaction, at or before the Closing Date, of each of the following conditions, provided that these conditions are for each Buyer's sole benefit and may be waived by such Buyer at any time in its sole discretion by providing the Company with prior written notice thereof:

(i) The Company shall have executed each of the Transaction Documents and delivered the same to such Buyer.

(ii) The Common Stock (x) shall be designated for quotation or listed on the Principal Market and (y) shall not have been suspended by the SEC or the Principal Market from trading on the Principal Market nor shall suspension by the SEC or the Principal Market have been threatened either (A) in writing by the SEC or the Principal Market or (B) by falling below the minimum listing maintenance requirements of the Principal Market; and the Conversion Shares issuable upon conversion of the Debentures (without regard to any limitations on conversions) and the Warrant Shares issuable upon exercise of the Warrants (without regard to any limitations on exercises) shall be listed (subject to official notice of issuance) upon the Principal Market.

(iii) The representations and warranties of the Company shall be true and correct as of the date when made and as of the Closing Date as though made at that time (except for representations and warranties that speak as of a specific date) and the Company shall have performed, satisfied and complied with the covenants, agreements and conditions required by the Transaction Documents to be performed, satisfied or complied with by the Company at or prior to the Closing Date. Such Buyer shall have received a certificate, executed by the Chief Executive Officer of the Company, dated as of the Closing Date, to the foregoing effect and as to such other matters as may be reasonably requested by such Buyer, including, without limitation, an update as of the Closing Date regarding the representation contained in Section 3(c) above.

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(iv) Such Buyer shall have received the opinion of Greenbaum, Rowe, Smith, Ravin, Davis & Himmel LLP,, dated as of the Closing Date, in the form of Exhibit E, attached hereto.

(v) The Company shall have executed and delivered to such Buyer the Debentures and Warrants (in such denominations as such Buyer shall request) for the Debentures and the Warrants being purchased by such Buyer at the Closing.

(vi) The Board of Directors of the Company shall have adopted resolutions consistent with Section 3(b) above and in a form reasonably acceptable to such Buyer (the "Resolutions").

(vii) As of the Closing Date, the Company shall have reserved out of its authorized and unissued Common Stock, solely for the purpose of effecting the conversion of the Debentures and the exercise of the Warrants 11,731,437 shares of its Common Stock.

(viii) The Irrevocable Transfer Agent Instructions shall have been delivered to and acknowledged in writing by the Company's transfer agent.

(ix) The Company shall have delivered to such Buyer a certificate evidencing the incorporation and good standing of the Company and the Sorrento Subsidiary and Meret Communications, Inc. in such entity's state of incorporation or organization issued by the Secretary of State of such state of incorporation or organization as of a date within ten (10) days of the Closing Date.

(x) The Company shall have delivered to such Buyer a certified copy of the Certificate of Incorporation as certified by the Secretary of State of the State of New Jersey as of a date within ten (10) days of the Closing Date.

(xi) The Company shall have delivered to such Buyer a secretary's certificate, dated as of the Closing Date, certifying as to (A) the Resolutions, (B) the Certificate of Incorporation and (C) the By-laws, each as in effect at the Closing.

(xii) The Company shall have made all filings under all applicable federal and state securities laws necessary to consummate the issuance of the Securities pursuant to this Agreement in compliance with such laws.

(xiii) The Company shall have delivered to such Buyer a letter from the Company's transfer agent certifying the number of shares of Common Stock outstanding as of a date within five (5) days of the Closing Date.

(xiv) The Company shall have received a minimum of \$25 million in the aggregate from the Buyers to purchase the Debentures. In the event that the Company does not receive at least \$25 million from the Buyers, all funds shall be immediately returned to the Buyers.

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(xv) The Company shall have filed the Certificate of Designation for the Preferred Shares with the Secretary of State of the State of New Jersey, and shall have delivered a copy thereof to such Buyer certified by the Secretary of State of the State of New Jersey.

(xvi) The parties thereto shall have executed and delivered the Escrow Agreement.

(xvii) The Company shall have delivered to the Buyers such other documents relating to the transactions contemplated by the Transaction Documents as the Buyers or their counsel may reasonably request.

8. INDEMNIFICATION.

In consideration of each Buyer's execution and delivery of the Transaction Documents and acquiring the Securities thereunder and in addition to all of the Company's other obligations under the Transaction Documents, the Company shall defend, protect, indemnify and hold harmless each Buyer and each other holder of the Securities and all of their stockholders, officers, directors, employees and direct or indirect investors and any of the foregoing persons' agents or other representatives (including, without limitation, those retained in connection with the transactions contemplated by this Agreement)

(collectively, the "Indemnitees") from and against any and all actions, causes of action, suits, claims, losses, costs, penalties, fees, liabilities and damages, and expenses in connection therewith (irrespective of whether any such Indemnitee is a party to the action for which indemnification hereunder is sought), and including reasonable attorneys' fees and disbursements (the "Indemnified Liabilities"), incurred by any Indemnitee as a result of, or arising out of, or relating to (a) any misrepresentation or breach of any representation or warranty made by the Company in the Transaction Documents or any other certificate, instrument or document contemplated hereby or thereby, (b) any breach of any covenant, agreement or obligation of the Company contained in the Transaction Documents or any other certificate, instrument or document contemplated hereby or thereby, (c) any cause of action, suit or claim brought or made against such Indemnitee (other than a cause of action, suit or claim which is (x) brought or made by the Company and (y) is not a stockholder derivative suit) and arising out of or resulting from (i) the execution, delivery, performance or enforcement of the Transaction Documents or any other certificate, instrument or document contemplated hereby or thereby, (ii) any transaction financed or to be financed in whole or in part, directly or indirectly, with the proceeds of the issuance of the Securities or (iii) the status of such Buyer or holder of the Securities as an investor in the Company. To the extent that the foregoing undertaking by the Company may be unenforceable for any reason, the Company shall make the maximum contribution to the payment and satisfaction of each of the Indemnified Liabilities which is permissible under applicable law. Except as otherwise set forth herein, the mechanics and procedures with respect to the rights and obligations under this Section 8 shall be the same as those set forth in Sections 6(a) and (d) of the Registration Rights Agreement, including, without limitation, those procedures with respect to the settlement of claims and the Company's rights to assume the defense of claims.

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9. MISCELLANEOUS.

a. Governing Law; Jurisdiction; Jury Trial. All questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by the internal laws of the State of New York, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of New York or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of New York. Each party hereby irrevocably submits to the exclusive jurisdiction of the federal courts sitting in the Southern District of New York and the state courts in the borough of Manhattan, New York, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address for such notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. EACH PARTY HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION HEREWITH OR ARISING OUT OF THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED HEREBY.

b. Counterparts. This Agreement may be executed in two or more identical counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party; provided that a facsimile signature shall be considered due execution and shall be binding upon the signatory thereto with the same force and effect as if the signature were an original, not a facsimile signature.

c. Headings. The headings of this Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Agreement.

d. Severability. If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement in that jurisdiction or the validity or enforceability of any provision of this

e. Entire Agreement; Amendments. This Agreement supersedes all other prior oral or written agreements between each Buyer, the Company, their affiliates and persons acting on their behalf with respect to the matters discussed herein, and this Agreement and the instruments referenced herein contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, neither the Company nor any Buyer makes any representation, warranty, covenant or undertaking with respect to such matters. No provision of this Agreement may be amended or waived other than by an instrument in writing signed by the Company and the holders of at least two-thirds of the

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outstanding principal amount of the Debentures or Conversion Shares, as applicable. No such amendment shall be effective to the extent that it applies to less than all of the holders of the Debentures then outstanding. No consideration shall be offered or paid to any person to amend or consent to a waiver or modification of any provision of any of the Transaction Documents unless the same consideration also is offered to all of the parties to the Transaction Documents or holders of the Conversion Shares, as the case may be.

f. Notices. Any notices, consents, waivers or other communications required or permitted to be given under the terms of this Agreement must be in writing and will be deemed to have been delivered: (i) upon receipt, when delivered personally; (ii) upon receipt, when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party); or (iii) one (1) Business Day after deposit with a nationally recognized overnight delivery service, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:

If to the Company:

Sorrento Networks Corporation
9990 Mesa Rim Road
San Diego, CA 92121
Telephone: 858-558-3960
Facsimile: 858-558-3974
Attention: General Counsel and
Chief Financial Officer

With a copy to:

Greenbaum, Rowe, Smith, Ravin, Davis & Himmel LLP
99 Wood Avenue South
P.O. Box 5600
Woodbridge, NJ 07095
Telephone: 732-549-5600
Facsimile: 732-549-1881
Attention: W. Raymond Felton

If to the Transfer Agent:

American Stock Transfer & Trust Co.
6201 15th Avenue, 3rd Floor
Brooklyn, New York 11211
Telephone: 718-921-8254
Facsimile: 718-921-8328
Attention: Theresa Conrad

If to a Buyer, to it at the address and facsimile number set forth on the Schedule of Buyers, with copies to such Buyer's representatives as set forth on the Schedule of Buyers, or at such other address and/or facsimile number and/or to the attention of such other person as the recipient party has specified by written notice given to each other party five days prior to the effectiveness of such change. Written confirmation of receipt (A) given by the recipient of such

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notice, consent, waiver or other communication, (B) mechanically or electronically generated by the sender's facsimile machine containing the time, date, recipient facsimile number and an image of the first page of such transmission or (C) provided by a nationally recognized overnight delivery service shall be rebuttable evidence of personal service, receipt by facsimile or receipt from a nationally recognized overnight delivery service in accordance with clause (i), (ii) or (iii) above, respectively.

g. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns, including any purchasers of the Securities. The Company shall not assign this Agreement or any rights or obligations hereunder without the prior written consent of the holders of at least two-thirds of the outstanding principal amount of the Debentures including by merger or consolidation, except pursuant to a Change of Control with respect to which the Company is in compliance with the terms of the Debentures and Section 4(j) of this Agreement. A Buyer may assign some or all of its rights hereunder without the consent of the Company; provided, however, that the transferee has agreed in writing to be bound by the applicable provisions of this Agreement. The Buyers shall be entitled to pledge the Securities in connection with a bona fide margin account or other loan secured by the Securities.

h. No Third Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

i. Survival. Unless this Agreement is terminated under Section 9(1), the representations and warranties of the Company and the Buyers contained in Sections 2 and 3, the agreements and covenants set forth in Sections 4, 5 and 9, and the indemnification provisions set forth in Section 8, shall survive the Closing. Each Buyer shall be responsible only for its own representations, warranties, agreements and covenants hereunder.

j. Publicity. The Company and each Buyer shall have the right to approve before issuance any press releases or any other public statements with respect to the transactions contemplated hereby; provided, however, that the Company shall be entitled, without the prior approval of any Buyer, to make any press release or other public disclosure with respect to such transactions in the form as is required by applicable law and regulations (although each Buyer shall be consulted by the Company in connection with any such press release or other public disclosure prior to its release and shall be provided with a copy thereof).

k. Further Assurances. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

l. Termination. In the event that the Closing shall not have occurred with respect to a Buyer on or before five (5) Business Days from the date hereof due to the Company's or such Buyer's failure to satisfy the conditions set forth in Sections 6 and 7 above (and the nonbreaching party's failure to waive such unsatisfied condition(s)), the nonbreaching

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party shall have the option to terminate this Agreement with respect to such breaching party at the close of business on such date without liability of any party to any other party; provided, however, that if this Agreement is terminated pursuant to this Section 9(1), the Company shall remain obligated to reimburse any nonbreaching Buyer for the expenses described in Section 4(1) above.

m. Placement Agent. The Company acknowledges that it has not engaged a placement agent in connection with the sale of the Debentures or the Warrants, except S.G. Cowen in its role as placement agent of the Debentures and Warrants. The Company shall be responsible for the payment of any placement agent's fees, financial advisory fees, or brokers' commissions (other than for persons engaged by any Buyer or its investment advisor) relating to or arising out of the transactions contemplated hereby. The Company shall pay, and hold each Buyer harmless against, any liability, loss or expense (including, without limitation, attorney's fees and out-of-pocket expenses) arising in connection with any such

claim.

n. No Strict Construction. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

o. Remedies. Each Buyer and each holder of the Securities shall have all rights and remedies set forth in the Transaction Documents and all rights and remedies which such holders have been granted at any time under any other agreement or contract and all of the rights which such holders have under any law. Any person having any rights under any provision of this Agreement shall be entitled to enforce such rights specifically (without posting a bond or other security) to recover damages by reason of any breach of any provision of this Agreement and to exercise all other rights granted by law.

p. Payment Set Aside. To the extent that the Company makes a payment or payments to any Buyer hereunder or pursuant to any of the other Transaction Documents, or the Buyers enforce or exercise their rights hereunder or thereunder, and such payment or payments or the proceeds of such enforcement or exercise or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside, recovered from, disgorged by or are required to be refunded, repaid or otherwise restored to the Company, a trustee, receiver or any other person under any law (including, without limitation, any bankruptcy law, state or federal law, common law or equitable cause of action), then to the extent of any such restoration the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred.

q. Equitable Relief. The Company recognizes that in the event that it fails to perform, observe, or discharge any or all of its obligations under this Agreement, any remedy at law may prove to be inadequate relief to the Buyers. The Company therefore agrees that the Buyers shall be entitled to seek temporary and permanent injunctive relief in any such case without the necessity of proving actual damages.

r. Crescent. The parties hereby acknowledge that any reference to interest made herein or in any other Transaction Document is not applicable to Crescent.

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Furthermore, the parties hereby acknowledge that in lieu of any interest due and owing to the Buyers hereunder or pursuant to any other Transaction Document, Crescent shall accrue a corresponding fee in the equivalent pro-rata amount earned by the other Buyers.

IN WITNESS WHEREOF, the Buyers and the Company have caused this Securities Purchase Agreement to be duly executed as of the date first written above.

COMPANY:

SORRENTO NETWORKS CORPORATION

By: /s/ Joe R. Armstrong

Name: Joe R. Armstrong
Title: Chief Financial Officer

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BUYERS:

DEUTSCHE BANC ALEX. BROWN INC., as
agent for DEUTSCHE BANK AG, LONDON
BRANCH

By: /s/ Daniel Gold

Name: Daniel Gold
Title: Managing Director

By: /s/ Nicholas Brumm

Name: Nicholas Brumm
Title: Director

SOCIETE GENERALE

By: /s/ Guillaume Pollet

Name: Guillaume Pollet
Title: Managing Director

ZLP MASTER FUND, LTD.

By: /s/ Stuart J. Zimmer

Name: Stuart J. Zimmer
Title: Director

ZLP MASTER TECHNOLOGY FUND, LTD.

By: /s/ Stuart J. Zimmer

Name: Stuart J. Zimmer
Title: Director

STEELHEAD INVESTMENTS LTD.

By: /s/ Kevin O'Neal

Name: Kevin O'Neal
Title: Authorized Signatory

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CRESCENT INTERNATIONAL, LTD.

By: _____

Name:
Title:

RIVERVIEW, LLC

By: /s/ Terry Feeney

Name: Terry Feeney
Title: Chief Financial Officer

By: /s/ Kenneth L. Henderson

Name: Kenneth L. Henderson
 Title: Attorney-in-Fact

GRYPHON MASTER FUND, L.P.

By: /s/ E.B. Lyon

Name: E.B. Lyon
 Title: Partner

LANGLEY PARTNERS, L.P.

By: /s/ Jeffrey Thorp

Name: Jeffrey Thorp
 Title: Managing Member

ELLIOTT ASSOCIATES, L.P.

By: /s/ Elliot Greenberg

Name: Elliot Greenberg
 Title: Vice President

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SCHEDULE OF BUYERS

<TABLE>
 <CAPTION>

Investor Name	Investor Address and Facsimile Number	Principal Amount of Debentures	Escrow Amount	Number of Warrants	Investor's Representatives' Address and Facsimile Number
<S> Deutsche Bank AG, London Branch	<C> c/o Deutsche Banc Alex. Brown, Inc. 31 West 52nd Street (16th Floor) New York, NY 10019 Attn: Daniel Gold/Nick Brumm/Tracy Fu 212-469-5787	<C> 7,500,000	<C> 2,386,172.95	<C> 780,708	<C> c/o Deutsche Banc Alex. Brown, Inc. 31 West 52nd Street (16th Floor) New York, NY 10019 Attn: Daniel Gold/Nick Brumm/Tracy Fu 212-469-5787
Gryphon Master Fund*	45 Rockefeller Plaza Suite 2038 New York, NY 10011 Attn: Michael Fein 212-332-5050	3,000,000	954,469.18	312,283	45 Rockefeller Plaza Suite 2038 New York, NY 10011 Attn: Michael Fein 212-332-5050
Zimmer Lucas Partners	45 Broadway, 28th Floor New York, NY 10006 Attn: Stuart Zimmer 212-440-0750	5,000,000	1,590,781.97	520,472	45 Broadway, 28th Floor New York, NY 10006 Attn: Stuart Zimmer 212-440-0750
Societe Generale	1221 Avenue of the Americas New York, NY 10020 Attn: Guillaume Pollet 212-278-5467	4,000,000	1,272,625.57	416,378	1221 Avenue of the Americas New York, NY 10020 Attn: Guillaume Pollet 212-278-5467
Vertical Ventures*	160 Central Park South New York, NY 10019 Attn: Scott Cohen/Josh Silverman 212-974-2365	3,000,000	954,469.18	312,283	160 Central Park South New York, NY 10019 Attn: Scott Cohen/Josh Silverman 212-974-2365

Crescent International, Ltd.	c/o Greenlight 84 Avenue Louis Casai, 1216 Cointrin Geneva, Switzerland Attn: Ali Dadressan 011-4122-791-72-98	1,200,000	381,787.67	124,913	c/o Greenlight 84 Avenue Louis Casai, 1216 Cointrin Geneva, Switzerland Attn: Ali Dadressan 011-4122-791-72-98
River View LLC	c/o Millenium Partners 666 5th Avenue New York, NY 10103 Attn: Dan Cardella 212-841-6302	2,000,000	636,312.79	208,189	c/o Millenium Partners 666 5th Avenue New York, NY 10103 Attn: Dan Cardella 212-841-6302
Elliott Associates, L.P.*	45 Rockefeller Plaza Suite 2038 New York, NY 10011 Attn: Michael Fein 212-332-5050	1,000,000	317,765.18	104,094	45 Rockefeller Plaza Suite 2038 New York, NY 10011 Attn: Michael Fein 212-332-5050
Langley Partners, L.P.*	45 Rockefeller Plaza Suite 2038 New York, NY 10011 Attn: Michael Fein 212-332-5050	3,000,000	954,469.18	312,283	45 Rockefeller Plaza Suite 2038 New York, NY 10011 Attn: Michael Fein 212-332-5050
Steelhead Investments Ltd.*	45 Rockefeller Plaza Suite 2038 New York, NY 10011 Attn: Michael Fein 212-332-5050	2,500,000	795,782.28	260,236	45 Rockefeller Plaza Suite 2038 New York, NY 10011 Attn: Michael Fein 212-332-5050

</TABLE>

* With a copy to:

Robinson Silverman Pearce Aronsohn & Berman LLP
1290 Avenue of the Americas
New York, NY 10104
Attn: Eric L. Cohn, Esq.
212-541-1432

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Schedule 3(h)	-	Litigation
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Schedule 3(m)(ii)	-	Employee Matters
Schedule 3(n)	-	Intellectual Property

Schedule 3(o)	-	Liens
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Schedule 3(w)	-	Transactions with Affiliates
Schedule 3(y)	-	Rights Agreement
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EXHIBITS

Exhibit A	-	Form of Debenture
Exhibit B	-	Form of Warrant
Exhibit C	-	Form of Registration Rights Agreement
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Schedule 3(c) - Capitalization

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Authorized Shares:	
Common Stock, \$.30 par value	150,000,000
Preferred Stock, \$.01 par value	2,000,000
preferred stock series designated:	
Preferred Stock, Series A	2,500
Preferred Stock, Series B	1,000
Preferred Stock, Series C	10,000
Preferred Stock, Series D	3,000
Preferred Stock, Series E	1,000,000
Issued and Outstanding Shares at July 17, 2001:	
Common Stock issued	14,237,914
Less: Treasury stock	(8,888)

Common Stock issued and outstanding	14,229,026
Preferred Stock:	
Series D - shares outstanding	1,353

</TABLE>

"Conversion" value of outstanding preferred stock (convertible at an average of the five days market closing price)

<TABLE>		
<CAPTION>		
	Conversion	Estimated
	Value	Reserve
	-----	-----
<S>	<C>	<C>
Series D	\$1,353,000	193,286

Shares reserved for issuance under Company's stock plans:

Options outstanding under Company's option plans including the 1988 Stock Option Plan, the 1997 Incentive and Non-Qualified Stock Option Plan, the 1997 Director Stock Option Plan, and the 2000 Stock Incentive Plan all of which have been filed with various SEC filings	4,866,336
Shares reserved for issuance under the 2000 Stock Incentive Plan	4,807,449

	9,673,785

</TABLE>

The Company's 2000 Stock Incentive Plan contains provisions which provide for stock appreciation rights. None of the currently outstanding options contain any stock appreciation rights.

Shares reserved for issuance under Sorrento Networks, Inc. stock plan:

<TABLE>	
<S>	<C>
Options to acquire shares of subsidiary at assumed conversion of 1 for 3.9; option holders may elect conversion	4,707,331

Total warrants to acquire Company's common stock outstanding:

As of July 17, 2001	509,833
---------------------	---------

Other commitments:

Pursuant to a Stock Purchase Agreement dated as of March 22, 2001, the Company is potentially liable for the issuance of additional shares of common stock to the purchasers in the event the Company issues equity securities, including convertible debt, at a price less than \$6.5531 per share from March 22, 2001 through September 13, 2002. In addition, the Company would be required to issue warrants to acquire additional shares (25% of the additional shares issued) exercisable at 125% of the reduced purchase price. The Company has filed the required registration agreement on Form S-3 provided by this agreement, except as regards potentially issuable shares, and such Registration Statement became effective on June 5, 2001.

Sorrento Networks, Inc. ("Sorrento") has 9,495,770 shares of its Series A Preferred Stock outstanding of which 899,437 are held by the Company. Each share of Sorrento's Series A Preferred Stock is convertible into one share of Sorrento's common stock at the option of the holder and has a liquidation preference of \$5.45 per share. The holders of more than 50% of the then outstanding Series A shares requested a redemption at the current liquidation preference of \$48.8 million. The requested redemption can only be made from specified categories of funds, and Sorrento cannot legally redeem any of the Series A shares at this time. The Company with the assistance of an investment banking firm is attempting to structure an agreement between Sorrento and the Series A shareholders regarding their redemption request which may include the issuance of the Company's common stock or a newly designated convertible preferred stock.

Schedule 3(e) - Conflicts

As a result of necessary cash requirements to fund continuing operations of its subsidiary, Sorrento, the Company has financed Sorrento with various amounts from time to time after March 3, 2000 which, in the aggregate, total approximately \$36,000,000 as of July 17, 2001. Sorrento has not sought approval of its Series A shareholders with respect to such financings, which approval might have been required. However, the Board of Directors of the Company and Sorrento have agreed to a transaction whereby Sorrento would sell additional shares of its Series A Preferred to the Company, on the same terms and conditions and for the same price as previous issuances of said stock, for which the sole consideration would be the extinguishment of the aforesaid inter-company obligation, and for which approval of the Series A shareholders should not be required.

Schedule 3(h) - Litigation

The only litigation currently pending or threatened against the Company or any of its subsidiaries of which the Company is aware of are the following:

1. Telcom-SNI Investors, L.L.C., Andersen, Weinroth & Co., L.P., and Belmarken Holding N.V. v. Sorrento Networks, Inc., Civil Action No. 18915-NC in the Delaware Court of Chancery.

This action has been brought pursuant to Delaware General Corporation Law Section 220 seeking inspection of the books and records of Sorrento Networks, Inc. Trial is set for August 8, 2001. No monetary or other relief is sought besides access to the books and records of Sorrento Networks, Inc.

2. Cirtran Corporation v. Osicom Technologies, Inc., a New Jersey corporation and Entrada Networks, Inc., a Delaware corporation, Case No. 2:01-CV-142B in the United States District Court for the District of Utah.

This is an action against the predecessor of the Company, and a former subsidiary of the Company, alleging that the former subsidiary owes a supplier in excess of \$800,000 as a result of transactions by the former subsidiary in the normal course

of business. No claims are made in this action arising from transactions between the plaintiff and the Company or any of its current subsidiaries. The Company has filed a motion to dismiss on the basis of lack of personal jurisdiction, and believes that, to the extent the Complaint can be construed as alleging claims against it, any such claims are without merit.

The only securities related litigation in which a current director or officer of the Company has been party within the past five years is the case styled In re Osicom Technologies, Inc. Securities Litigation, Master File No. CV-99-4321-R(Mcx), United States District Court, Central District of California. Dr. Xin Cheng, the Company's Chairman and Chief Executive Officer, was a named defendant in this class action, which alleged violations of sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, on behalf of a class of purchasers of Osicom's publicly traded securities during the period July 2, 1998 through April 20, 1999, inclusive. In September 2000, the action was dismissed with prejudice against all defendants, pursuant to a settlement agreement approved by the court after notice and hearing.

Schedule 3(1) - Integration

None.

Schedule 3(m) - Employment Matters; ERISA Matters

One of the Executive Officers of the Company, who is not active in day-to-day operations, has indicated that he will resign as an officer in the near future.

Schedule 3(v) - Transactions with Affiliates

None.

Schedule 3(y) - Rights Agreement

On June 25, 2001, the Company's board of directors authorized management to draft a shareholder rights plan, and subsequently approved said plan by unanimous consent. The Company is in the process of implementing this plan.

THE
BANK OF
NEW
YORK

ESCROW AGREEMENT

between

SORRENTO NETWORKS CORPORATION

and

THE BANK OF NEW YORK

Dated as of August 1, 2001

ACCOUNT NUMBER: 09160000

SHORT TITLE OF ACCOUNT: SORRENTO DEBENTURE ESCROW

ESCROW AGREEMENT made this 1st day of August by and between THE BANK OF NEW YORK ("Escrow Agent") and the undersigned (the "Depositor").

WHEREAS, pursuant to the Securities Purchase Agreement dated the date hereof among the Buyers identified on Exhibit A (the "Buyers") and the Depositor (the "Purchase Agreement"), the Buyers have agreed to purchase from the Depositor (i) \$32.2 million in aggregate principal amount of the Company's 9.75% Senior Convertible Debentures due August 2, 2004 (the "Debentures") and (ii) warrants dated the date hereof (the "Warrants") to purchase shares of the Depositor's common stock, par value \$.30 per share, or Series F Preferred Stock, par value \$0.01 per share, for the purchase price specified therein (the "Purchase Price");

WHEREAS, pursuant to the Purchase Agreement, a portion of the Purchase Price will be deposited in escrow with the Escrow Agent to be held and distributed by the Escrow Agent on terms and conditions set forth herein;

Depositor and Escrow Agent hereby agree that, in consideration of the mutual promises and covenants contained herein, Escrow Agent shall hold in escrow and shall distribute Escrow Property (as defined herein) in accordance with and subject to the following Instructions and Terms and Conditions:

Capitalized terms used herein but not otherwise defined shall have the meaning attributed to such terms in the Purchase Agreement.

I. INSTRUCTIONS:

1. Escrow Property

The property and/or funds deposited or to be deposited with Escrow Agent by Depositor shall be \$10,244,635.87 in cash. The foregoing property and/or funds, plus all interest, dividends and other distributions and payments thereon (collectively the "Distributions") received by Escrow Agent, less any property and/or funds distributed or paid in accordance with this Escrow Agreement, are collectively referred to herein as "Escrow Property."

2. Investment of Escrow Property Escrow Agent shall invest or reinvest Escrow Property, without distinction between principal and income, in accordance with the following:

Until the release of the Escrow Property pursuant to Section 3 hereof, the Escrow Agent shall invest and reinvest the Escrow Property solely in (a) securities issued or directly and fully guaranteed or insured by the United States or any agency or instrumentality thereof (provided that the full faith and credit of the United States is pledged in support thereof) having maturities of not more than three months from the date of acquisition, and (b) U.S. Money Market Funds (as defined below). As used herein, the term "U.S. Money Market Funds" means interests in any open-end or

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closed-end management type investment company or investment trust registered under the Investment Company Act of 1940, (as from time to time amended, the "Investment Company Act"), the portfolio of which is limited to obligations of, or obligations guaranteed by, the United States or any agency thereof ("Federal Obligations") and to agreements to repurchase Federal Obligations that are at least 100% collateralized by Federal Obligations marked to market on a daily basis.

Escrow Agent shall have no liability for any loss arising from or related to any such investment other than in accordance with paragraph 4 of the Terms and Conditions.

3. Distribution of Escrow Property

Escrow Agent is directed to hold and distribute the Escrow Property in the following manner:

(a) Release of Escrow Property.

(i) If (1) the Depositor has not obtained NASD Approval (as defined in the Depositor's Certificate of Designations of its Series F Preferred Stock ("Certificate of Designations") or Shareholder Approval (as defined in the Certificate of Designations) and (2) a Buyer has elected to redeem up to that amount of Debentures held by such holder of which the Outstanding Principal Amount (as defined in the Debentures) is equal to (i) the Original Escrow Amount multiplied by (ii) a fraction (x) the numerator of which is the aggregate Outstanding Principal Amount of the Debentures held by such holder and (y) the denominator of which is equal to the aggregate Outstanding Principal Amount of all of the Debentures (the "Redemption") pursuant to Section 11(g) of the Debentures, the Buyer electing such Redemption will deliver to the Escrow Agent a written notice in the form of Exhibit B signed by the Buyer (a "Buyer Distribution Notice") setting forth the amount to be distributed to the Buyer determined as provided above and directing the distribution of all or a portion of its Pro-Rata Allocation together with all interest or fees earned thereon. Within five Business Days after receipt of a Buyer Distribution Notice, the Escrow Agent shall pay to the Buyer requesting such distribution, the amount of the Escrow Property specified in such Buyer Distribution Notice. The Escrow Agent shall, to the extent the Depositor has not certified to the Escrow Agent and Buyers that it has otherwise satisfied its obligation to pay accrued interest (or, in the case of Crescent, accrued fees) on the Debentures in accordance with their terms (the interest or, in the case of Crescent, fees, earned pursuant to the Debentures is collectively referred to herein as the "Debenture Escrow Interest"), also distribute to such Buyer the Buyer's Pro-Rata Allocation of such interest or fees in partial satisfaction of accrued interest (or, in the case of Crescent, accrued fees) owed under the Debentures.

(ii) If the Depositor has obtained NASD Approval or Shareholder

Approval, the Company and all Buyers shall deliver to the Escrow Agent a written notice in the form of Exhibit C signed by Depositor and all Buyers (the "Depositor's Distribution Notice") directing the distribution of the entire amount of the Escrow Property to the Depositor plus all interest and fees accrued thereon. All Escrow Property remaining after distribution to Buyers requesting Redemption and expiration of the time periods specified for election of Redemption pursuant to Section 11(g) of the Debentures shall be distributed to the Depositor.

(iii) The Escrow Agent will not distribute any of the Escrow Property or interest payments (or, in the case of Crescent, fee payments) thereon until it receives a Buyer Distribution Notice or Depositor Distribution Notice.

(iv) Notwithstanding paragraph 11(b) of the Terms and Conditions, the Escrow Agent shall give effect to each Buyer Distribution Notice regardless of any instruction to the contrary from Depositor.

(b) Liquidation of Investments. If necessary to satisfy any distributions under this Agreement, the Escrow Agent may sell or liquidate, in its reasonable discretion, any one or more investments prior to maturity and the Escrow Agent shall not be liable to the Depositor or to the Buyers for any loss or penalties resulting from or relating to such sale or liquidation, however the persons entitled to such distribution hereunder may extend any payment period in paragraph (a) above in order to avoid any loss of income or principal from a premature liquidation of an escrow investment. All releases of Escrow Property shall be made by wire transfer of immediately available funds to the appropriate party at the account specified in the applicable distribution notice, or in such other manner as agreed to between the appropriate party and the Escrow Agent.

4. Addresses

Notices, instructions and other communications shall be sent to Escrow Agent, in care of United States Trust Company, 114 West 47th Street, 25th Floor, New York, New York 10036, and to Depositor and Buyers as set forth in Exhibit A hereto:

5. Compensation

- (a) At the time of execution of this Escrow Agreement, Depositor shall pay Escrow Agent a fee of \$.
- (b) Depositor shall pay an investment transaction fee of \$ for each purchase or sale of a security made by Escrow Agent hereunder.
- (c) Depositor shall be responsible for and shall reimburse Escrow Agent upon demand for all expenses, disbursements and advances incurred or made by Escrow Agent in connection with this Agreement.

- (d) The Escrow Agent shall not have any claim against any Buyer for any fee or expense arising in connection with the performance of its duties hereunder.

II. TERMS AND CONDITIONS:

1. The duties, responsibilities and obligations of Escrow Agent shall be limited to those expressly set forth herein and no duties, responsibilities or obligations shall be inferred or implied. Escrow Agent shall not be subject to, nor required to comply with, any other agreement to which the Depositor is a party, even though reference thereto may be made herein, or to comply with any direction or instruction (other than those contained herein or delivered in accordance with this Escrow Agreement) from the Depositor or any entity acting on its behalf. Escrow Agent shall not be required to, and shall not, expend or risk any of its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder.
2. This Agreement is for the exclusive benefit of the parties hereto and their respective successors hereunder, and shall not be deemed to give, either express or implied, any legal or equitable right, remedy, or claim to any other entity or person whatsoever other than the Buyers.
3. If at any time Escrow Agent is served with any judicial or administrative order, judgment, decree, writ or other form of judicial or administrative process which in any way affects Escrow Property (including but not limited to orders of attachment or garnishment or other forms of levies or injunctions or stays relating to the transfer of Escrow Property), Escrow Agent is authorized to comply therewith in any manner as it or its legal counsel of its own choosing deems appropriate; and if Escrow Agent complies with any such judicial or administrative order, judgment, decree, writ or other form of judicial or administrative process, Escrow Agent shall not be liable to any of the parties hereto or to any other person or entity even though such order, judgment, decree, writ or process may be subsequently modified or vacated or otherwise determined to have been without legal force or effect.
4. (a) Escrow Agent shall not be liable for any action taken or omitted or for any loss or injury resulting from its actions or its performance or lack of performance of its duties hereunder in the absence of gross negligence or willful misconduct on its part. In no event shall Escrow Agent be liable (i) for acting in accordance with or relying upon any instruction, notice, demand, certificate or document from Depositor or any entity acting on behalf of Depositor, (ii) for any consequential, punitive or special damages, (iii) for the acts or omissions of its nominees, correspondents, designees, subagents or subcustodians, or (iv) for an amount in excess of the value of the Escrow Property, valued as of the date of deposit.

(b) If any fees, expenses or costs incurred by, or any obligations owed to, Escrow Agent hereunder are not promptly paid when due, Escrow Agent may reimburse itself therefor from the Escrow Property and may sell, convey or otherwise dispose of any Escrow Property for such purpose.

(c) As security for the due and punctual performance of any and all of Depositor's obligations to Escrow Agent hereunder, now or hereafter arising, Depositors, individually and collectively, hereby pledge, assign and grant to Escrow Agent a continuing security interest in, and a lien on, the Escrow Property and all Distributions

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thereon or additions thereto (whether such additions are the result of deposits by Depositor or the investment of Escrow Property). The security interest of Escrow Agent shall at all times be valid, perfected and enforceable by Escrow Agent against Depositor and all third parties in accordance with the terms of this Escrow Agreement.

(d) Escrow Agent may consult with legal counsel at the expense of the Depositor as to any matter relating to this Escrow Agreement, and Escrow Agent shall not incur any liability in acting in good faith in accordance with any advice from such counsel.

(e) Escrow Agent shall not incur any liability for not performing any act or fulfilling any duty, obligation or responsibility hereunder by reason of any occurrence beyond the control of Escrow Agent (including but not limited to any act or provision of any present or future law or regulation or governmental authority, any act of God or war, or the unavailability of the Federal Reserve Bank wire or telex or other wire or communication facility).

5. Unless otherwise specifically set forth herein, Escrow Agent shall proceed as soon as practicable to collect any checks or other collection items at any time deposited hereunder. All such collections shall be subject to Escrow Agent's usual collection practices or terms regarding items received by Escrow Agent for deposit or collection. Escrow Agent shall not be required, or have any duty, to notify anyone of any payment or maturity under the terms of any instrument deposited hereunder, nor to take any legal action to enforce payment of any check, note or security deposited hereunder or to exercise any right or privilege which may be afforded to the holder of any such security.
6. Escrow Agent shall provide to Depositor and each Buyer monthly statements identifying transactions, transfers or holdings of Escrow Property and each such statement shall be deemed to be correct and final upon receipt thereof by the Depositor unless Escrow Agent is notified in writing to the contrary within thirty (30) business days of the date of such statement.
7. Escrow Agent shall not be responsible in any respect for the form, execution, validity, value or genuineness of documents or securities deposited hereunder, or for any description therein, or for the identity, authority or rights of persons executing or delivering or purporting to execute or deliver any such document, security or endorsement.
8. Notices, instructions or other communications shall be in writing and shall be given to the address set forth in the "Addresses" provision herein (or to such other address as may be substituted therefor by written notification to Escrow Agent or Depositors). Notices to Escrow Agent shall be deemed to be given when actually received by Escrow Agent's Corporate Trust Department. Escrow Agent is authorized to comply with and rely upon any notices, instructions or other communications believed by it to have been sent or given by Depositor or by a person or persons authorized by Depositor. Whenever under the terms hereof the time for giving a notice or performing an act falls upon a Saturday, Sunday, or banking holiday, such time shall be extended to the next day on which Escrow Agent is open for business.
9. Depositor, shall be liable for and shall reimburse and indemnify Escrow Agent and hold Escrow Agent harmless from and against any and all claims, losses, liabilities, costs, damages or expenses (including reasonable attorneys' fees and expenses) (collectively,

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"Losses") arising from or in connection with or related to this Escrow Agreement or being Escrow Agent hereunder (including but not limited to Losses incurred by Escrow Agent in connection with its successful defense, in whole or in part, of any claim of gross negligence or willful misconduct on its part), provided, however, that nothing contained herein shall require Escrow Agent to be indemnified for Losses caused by its gross negligence or willful misconduct.

10. (a) Depositor may remove Escrow Agent at any time by giving to Escrow Agent and Buyers thirty (30) calendar days' prior notice in writing signed by Depositor. Escrow Agent may resign at any time by giving to Depositors fifteen (15) calendar days' prior written notice thereof.

(b) Within ten (10) calendar days after giving the foregoing notice of removal to Escrow Agent or receiving the foregoing notice of resignation from Escrow Agent, Depositor shall appoint a successor Escrow Agent. If a successor Escrow Agent has not accepted such appointment by the end of such 10-day period, Escrow Agent may, in its sole discretion, may apply to a court of competent jurisdiction for the appointment of a successor Escrow Agent or for other appropriate relief. The costs and expenses (including

reasonable attorneys' fees and expenses) incurred by Escrow Agent in connection with such proceeding shall be paid by the Depositor.

(c) Upon receipt of the identity of the successor Escrow Agent, Escrow Agent shall either deliver the Escrow Property then held hereunder to the successor Escrow Agent, less Escrow Agent's fees, costs and expenses or other obligations owed to Escrow Agent, or hold such Escrow Property (or any portion thereof), pending distribution, until all such fees, costs and expenses or other obligations are paid.

(d) Upon delivery of the Escrow Property to successor Escrow Agent, Escrow Agent shall have no further duties, responsibilities or obligations hereunder.

11. (a) In the event of any ambiguity or uncertainty hereunder or in any notice, instruction or other communication received by Escrow Agent hereunder, Escrow Agent may, in its sole discretion, refrain from taking any action other than retain possession of the Escrow Property, unless Escrow Agent receives written instructions, signed by all Depositors, which eliminates such ambiguity or uncertainty.

(b) In the event of any dispute between or conflicting claims by Depositor and any other person or entity with respect to any Escrow Property, Escrow Agent shall be entitled, in its sole discretion, to refuse to comply with any and all claims, demands or instructions with respect to such Escrow Property so long as such dispute or conflict shall continue, and Escrow Agent shall not be or become liable in any way to the Depositor for failure or refusal to comply with such conflicting claims, demands or instructions. Escrow Agent shall be entitled to refuse to act until, in its sole discretion, either (i) such conflicting or adverse claims or demands shall have been determined by a final order, judgment or decree of a court of competent jurisdiction, which order, judgment or decree is not subject to appeal, or settled by agreement between the conflicting parties as evidenced in a writing satisfactory to Escrow Agent or (ii) Escrow Agent shall have received security or an indemnity satisfactory to it sufficient to hold it harmless from and against any and all Losses which it may incur by reason of so acting. Escrow Agent may, in addition, elect, in its sole discretion, to commence an interpleader action or seek other judicial relief or orders as it may deem, in its sole

discretion, necessary. The costs and expenses (including reasonable attorneys' fees and expenses) incurred in connection with such proceeding shall be paid by the Depositor.

12. This Agreement shall be interpreted, construed, enforced and administered in accordance with the internal substantive laws (and not the choice of law rules) of the State of New York. The Depositor hereby submits to the personal jurisdiction of and each agrees that all proceedings relating hereto shall be brought in courts located within the City and State of New York or elsewhere as Escrow Agent may select. The Depositors hereby waives the right to trial by jury and to assert counterclaims in any such proceedings. To the extent that in any jurisdiction Depositor may be entitled to claim, for itself or its assets, immunity from suit, execution, attachment (whether before or after judgment) or other legal process, each hereby irrevocably agrees not to claim, and hereby waives, such immunity. Depositor waives personal service of process and consents to service of process by certified or registered mail, return receipt requested, directed to it at the address last specified for notices hereunder, and such service shall be deemed completed ten (10) calendar days after the same is so mailed.
13. Except as otherwise permitted herein, this Escrow Agreement may be modified only by a written amendment signed by all the parties hereto, and no waiver of any provision hereof shall be effective unless expressed in a writing signed by the party to be charged. The Escrow Agreement may not be amended by Depositor or Escrow Agent without the written consent of the Buyers.
14. The rights and remedies conferred upon the parties hereto shall be

cumulative, and the exercise or waiver of any such right or remedy shall not preclude or inhibit the exercise of any additional rights or remedies. The waiver of any right or remedy hereunder shall not preclude the subsequent exercise of such right or remedy.

- 15. The Depositor hereby represents and warrants (a) that this Escrow Agreement has been duly authorized, executed and delivered on its behalf and constitutes its legal, valid and binding obligation and (b) that the execution, delivery and performance of this Escrow Agreement by Depositor do not and will not violate any applicable law or regulation.
- 16. The invalidity, illegality or unenforceability of any provision of this Agreement shall in no way affect the validity, legality or enforceability of any other provision; and if any provision is held to be enforceable as a matter of law, the other provisions shall not be affected thereby and shall remain in full force and effect.
- 17. This Agreement shall constitute the entire agreement of the parties with respect to the subject matter and supersedes all prior oral or written agreements in regard thereto.
- 18. This Agreement shall terminate upon the distribution of all Escrow Property from the Account. The provisions of these Terms and Conditions shall survive termination of this Escrow Agreement and/or the resignation or removal of the Escrow Agent.
- 19. No printed or other material in any language, including prospectuses, notices, reports, and promotional material which mentions "The Bank of New York" by name or the rights, powers, or duties of the Escrow Agent under this Agreement shall be issued by any other parties hereto, or on such party's behalf, without the prior written consent of Escrow Agent.

- 20. The headings contained in this Agreement are for convenience of reference only and shall have no effect on the interpretation or operation hereof.
- 21. This Escrow Agreement may be executed by each of the parties hereto in any number of counterparts, each of which counterpart, when so executed and delivered, shall be deemed to be an original and all such counterparts shall together constitute one and the same agreement.
- 22. The Escrow Agent does not have any interest in the Escrow Property deposited hereunder but is serving as escrow holder only and having only possession thereof. Depositor shall pay or reimburse the Escrow Agent upon request for any transfer taxes or other taxes relating to the Escrow Property incurred in connection herewith and shall indemnify and hold harmless the Escrow Agent any amounts that it is obligated to pay in the way of such taxes. Any payments of income from this Escrow Account shall be subject to withholding regulations then in force with respect to United States taxes. The parties hereto will provide the Escrow Agent with appropriate W-9 forms for tax I.D., number certifications, or W-8 forms for non-resident alien certifications. It is understood that the Escrow Agent shall be responsible for income reporting only with respect to income earned on investment of funds which are a part of the Escrow Property and is not responsible for any other reporting. This paragraph and paragraph (9) shall survive notwithstanding any termination of this Escrow Agreement or the resignation of the Escrow Agent.

IN WITNESS WHEREOF, each of the parties has caused this Escrow Agreement to be executed by a duly authorized officer as of the day and year first written above.

THE BANK OF NEW YORK, as Escrow Agent

By: _____

Name:

Title:

SORRENTO NETWORKS CORPORATION

By: /s/ Joe R. Armstrong

Name: Joe R. Armstrong
Title: Chief Financial Officer

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EXHIBIT A

<TABLE>
<CAPTION>

Investor Name	Investor Address and Facsimile Number	Principal Amount Debentures	Escrow Amount	Number of Warrants	Investor's Representatives' Address and Facsimile Number
<S> Deutsche Bank AG, London Branch	<C> C/o Deutsche Banc Alex. Brown. Inc. 31 West 52nd Street (16th Floor) New York, NY 10019 Attn: Daniel Gold/ Nick Brumm/Tracy Fu 212-469-5787	<C> 7,500,000	<C> 2,386,172.95	<C> 780,708	<C> C/o Deutsche Banc Alex. Brown. Inc. 31 West 52nd Street (16th Floor) New York, NY 10019 Attn: Daniel Gold/ Nick Brumm/Tracy Fu 212-469-5787
Gryphon Master Fund*	45 Rockefeller Plaza Suite 2038 New York, NY 10011 Attn: Michael Fein 212-332-5050	3,000,000	954,469.18	312,283	45 Rockefeller Plaza Suite 2038 New York, NY 10011 Attn: Michael Fein 212-332-5050
Zimmer Lucas Partners	45 Broadway, 28th Floor New York, NY 10006 Attn: Stuart Zimmer 212-440-0750	5,000,000	1,590,781.97	520,472	45 Broadway, 28th Floor New York, NY 10006 Attn: Stuart Zimmer 212-440-0750
Societe Generale	1221 Avenue of the Americas New York, NY 10020 Attn: Guillaume Pollet 212-278-5467	4,000,000	1,272,625.57	416,378	1221 Avenue of the Americas New York, NY 10020 Attn: Guillaume Pollet 212-278-5467
Vertical Ventures*	160 Central Park South New York, NY 10019 Attn: Scott Cohen/ Josh Silverman 212-974-2365	3,000,000	954,469.18	312,283	160 Central Park South New York, NY 10019 Attn: Scott Cohen/ Josh Silverman 212-974-2365
Crescent International, Ltd.	c/o Greenlight 84 Avenue Louis Casai, 1216 Cointrin Geneva, Switzerland Attn: Ali Dadressan 011-4122-791-72-98	1,200,000	381,787.67	124,913	c/o Greenlight 84 Avenue Louis Casai, 1216 Cointrin Geneva, Switzerland Attn: Ali Dadressan 011-4122-791-72-98
River View LLC	C/o Millenium Partners 666 5th Avenue New York, NY 10103 Attn: Dan Cardella 212-841-6302	2,000,000	636,312.79	208,189	C/o Millenium Partners 666 5th Avenue New York, NY 10103 Attn: Dan Cardella 212-841-6302

Elliott Associates, L.P.*	45 Rockefeller Plaza Suite 2038 New York, NY 10011 Attn: Michael Fein 212-332-5050	1,000,000	317,765.18	104,094	45 Rockefeller Plaza Suite 2038 New York, NY 10011 Attn: Michael Fein 212-332-5050
Langley Partners, L.P.*	45 Rockefeller Plaza Suite 2038 New York, NY 10011 Attn: Michael Fein 212-332-5050	3,000,000	954,469.18	312,283	45 Rockefeller Plaza Suite 2038 New York, NY 10011 Attn: Michael Fein 212-332-5050
Steelhead Investments Ltd.*	45 Rockefeller Plaza Suite 2038 New York, NY 10011 Attn: Michael Fein 212-332-5050	2,500,000	795,782.28	260,236	45 Rockefeller Plaza Suite 2038 New York, NY 10011 Attn: Michael Fein 212-332-5050

</TABLE>

* With a copy to:
Robinson Silverman Pearce Aronsohn & Berman LLP
1290 Avenue of the Americas
New York, NY 10104
Attn: Eric L. Cohn, Esq.
212-541-1432

EXHIBIT B

BUYER'S DISTRIBUTION NOTICE

Bank of New York
c/o United States Trust Company
114 West States Trust Company
25th Floor
New York, New York 10036
Attention: Mr. Timothy Shea

Re: Sorrento Networks Corporation ("Depositor")
Account No. 09160000

Gentlemen:

The undersigned, a Buyer as defined in the Escrow Agreement dated as of August 1, 2001 between Bank of New York and Depositor (the "Escrow Agreement"), hereby directs you pursuant to Section 3(a)(i) of the Escrow Agreement to distribute to the account of the undersigned set forth below from the Escrow Property \$_____, represents [____%] [all] of its Pro-Rata Allocation, together with its proportionate share of the earnings thereon as provided in the Escrow Agreement.

Very truly yours,

[NAME OF BUYER]

By: _____

Name:
Title:

Account Information:
[Bank]:
ABA No.:
Account Name:
Account No.:
Attention:

EXHIBIT C

DEPOSITOR'S DISTRIBUTION NOTICE

Bank of New York
c/o United States Trust Company
114 West 47th Street
25th Floor
New York, New York 10036
Attention: Mr. Timothy Shea

Re: Sorrento Networks Corporation ("Depositor")
Account No. 09160000

Gentlemen:

The undersigned, the Depositor and Buyers identified in that Escrow Agreement, dated as of August 1, 2001, between Bank of New York and Depositor (the "Escrow Agreement"), hereby direct you pursuant to Section 3(a)ii) of the Escrow Agreement to distribute the Escrow Property to the Depositor at the account set forth below.

Very truly yours,

SORRENTO NETWORKS CORPORATION

By: _____

Name:

Title:

Account Information:

[Bank]:

ABA No.:

Account Name:

Account No.:

Attention:

BUYERS:

DEUTSCHE BANC ALEX. BROWN INC., as
agent for DEUTSCHE BANK AG, LONDON
BRANCH

By: _____

Name:

Title: _____

By: _____
Name: _____
Title: _____

SOCIETE GENERALE

By: _____
Name: _____
Title: _____

ZLP MASTER FUND, LTD.

By: _____
Name: Stuart J. Zimmer
Title: Director

ZLP MASTER TECHNOLOGY FUND, LTD.

By: _____
Name: Stuart J. Zimmer
Title: Director

STEELHEAD INVESTMENTS LTD.

By: _____
Name: _____
Title: _____

CRESCENT INTERNATIONAL, LTD.

By: _____
Name: _____
Title: _____

RIVERVIEW, LLC

By: _____
Name: _____
Title: _____

VERTICAL INTERNATIONAL LIMITED

By: _____
Name: _____
Title: _____

GRYPHON MASTER FUND, L.P.

By: _____
Name: _____
Title: _____

LANGLEY PARTNERS, L.P.

By: _____
Name: _____
Title: _____

ELLIOTT ASSOCIATES, L.P.

By: _____
Name: _____
Title: _____

REGISTRATION RIGHTS AGREEMENT

REGISTRATION RIGHTS AGREEMENT (this "Agreement"), dated as of August 2, 2001, by and among Sorrento Networks Corporation, a New Jersey corporation, with headquarters located at 9990 Mesa Rim Road, San Diego, California 92121 (the "Company"), and the undersigned buyers (each, a "Buyer" and collectively, the "Buyers").

WHEREAS:

A. In connection with the Securities Purchase Agreement by and among the parties hereto of even date herewith (the "Securities Purchase Agreement"), the Company has agreed, upon the terms and subject to the conditions of the Securities Purchase Agreement, to issue and sell to the Buyers an aggregate of (i) \$32,200,000 of the Company's 9.75% Senior Convertible Debentures Due August 2, 2004 (the "Convertible Debentures"), which will be convertible into shares of the Company's (1) Common Stock (as hereinafter defined) (as converted, the "Conversion Shares") or (2) Series F Preferred Stock (the "Preferred Shares") pursuant to the terms of the Convertible Debentures and (ii) warrants (the "Warrants") to purchase up to 3,351,839 shares of Common Stock (or Preferred Shares) (as exercised collectively, the "Warrant Shares");

B. To induce the Buyers to execute and deliver the Securities Purchase Agreement, the Company has agreed to provide certain registration rights under the Securities Act of 1933, as amended, and the rules and regulations thereunder, or any similar successor statute (collectively, the "1933 Act"), and applicable state securities laws; and

C. The location of defined terms in this Agreement is set forth on the Index of Terms attached hereto.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and each of the Buyers hereby agree as follows:

1. Definitions.

As used in this Agreement, the following terms shall have the following meanings:

a. "Business Day" means any day other than Saturday, Sunday or other day on which commercial banks in The City of New York are authorized or required by law to remain closed.

b. "Common Stock" means (i) the Company's common stock, par value \$0.30 per share, and (ii) any capital stock into which such Common Stock shall have been changed or any capital stock resulting from a reclassification of such Common Stock and all other stock of any class or classes (however designated) of the Company the holders of which have the right, without limitation as to amount, either to all or to a share of the balance of current

dividends and liquidating dividends after the payment of dividends and distributions on any shares entitled to preference.

c. "Crescent" means Crescent International Ltd., a Bermuda corporation.

d. "Investor" means a Buyer, any transferee or assignee thereof to whom a Buyer assigns its rights under this Agreement and who agrees to become bound by the provisions of this Agreement in accordance with Section 9 and any transferee or assignee thereof to whom a transferee or assignee assigns its rights under this Agreement and who agrees to become bound

by the provisions of this Agreement in accordance with Section 9.

e. "Person" means an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and governmental or any department or agency thereof.

f. "register," "registered," and "registration" refer to a registration effected by preparing and filing one or more Registration Statements (as defined below) in compliance with the 1933 Act and pursuant to Rule 415 under the 1933 Act or any successor rule providing for offering securities on a continuous or delayed basis ("Rule 415"), and the declaration or ordering of effectiveness of such Registration Statement(s) by the United States Securities and Exchange Commission (the "SEC").

g. "Registrable Securities" means (i) the Conversion Shares issued or issuable upon conversion of the Convertible Debentures, (ii) the Interest Payment Shares (as defined in those certain Convertible Debentures held by any Buyer except Crescent), (iii) the Commitment Fee Payment Shares (as defined in those certain Convertible Debentures held by Crescent), (iv) the Warrant Shares issued or issuable upon exercise of the Warrants and (iv) any shares of capital stock issued or issuable with respect to the Conversion Shares, the Convertible Debentures, the Interest Payment Shares, the Commitment Fee Payment Shares, the Warrant Shares or the Warrants as a result of any stock split, stock dividend, recapitalization, exchange or similar event or otherwise, without regard to any limitations on conversions of the Convertible Debentures or exercises of Warrants. Notwithstanding anything contained herein to the contrary, this definition of "Registrable Securities" shall exclude the Preferred Shares.

h. "Registration Statement" means a registration statement or registration statements of the Company filed under the 1933 Act covering the Registrable Securities.

Capitalized terms used herein and not otherwise defined herein shall have the respective meanings set forth in the Securities Purchase Agreement.

2. Registration.

a. Mandatory Registration. The Company shall prepare, and, as soon as practicable but in no event later than thirty (30) days after the Closing Date (as defined in the Securities Purchase Agreement) (the "Filing Deadline"), file with the SEC a Registration Statement on Form S-3 covering the resale of all of the Registrable Securities. In the event that Form S-3 is unavailable for such a registration, the Company shall use such other form as is

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available for such a registration, subject to the provisions of Section 2(d). The Registration Statement prepared pursuant hereto shall register for resale at least 11,731,437 shares of Common Stock. The Company shall use its best efforts to have the Registration Statement declared effective by the SEC as soon as practicable, but in no event later than the date which is ninety (90) days after the Closing Date (the "Effectiveness Deadline").

b. Allocation of Registrable Securities. The initial number of Registrable Securities included in any Registration Statement and each increase in the number of Registrable Securities included therein shall be allocated pro rata among the Investors based on the number of Registrable Securities held by each Investor at the time the Registration Statement covering such initial number of Registrable Securities or increase thereof is declared effective by the SEC. In the event that an Investor sells or otherwise transfers any of such Investor's Registrable Securities, each transferee shall be allocated a pro rata portion of the then remaining number of Registrable Securities included in such Registration Statement for such transferor. Any shares of Common Stock included in a Registration Statement and which remain allocated to any Person which ceases to hold any Registrable Securities covered by such Registration Statement shall be allocated to the remaining Investors, pro rata based on the number of Registrable Securities then held by such Investors which are covered by such Registration Statement.

c. Legal Counsel. Subject to Section 5 hereof, the Buyers holding at least two-thirds of the Registrable Securities shall have the right to select one legal counsel to review and oversee any offering pursuant to this Section 2 ("Legal Counsel"), which shall be counsel designated by the holders of at least two-thirds of the Registrable Securities. The Company and Legal Counsel shall reasonably cooperate with each other in performing the Company's obligations under this Agreement.

d. Eligibility for Form S-3. In the event that Form S-3 is not available for the registration of the resale of Registrable Securities hereunder, the Company shall (i) register the resale of the Registrable Securities on another appropriate form reasonably acceptable to the holders of at least two-thirds of the Registrable Securities and (ii) undertake to register the Registrable Securities on Form S-3 as soon as such form is available, provided that the Company shall maintain the effectiveness of the Registration Statement then in effect until such time as a Registration Statement on Form S-3 covering the Registrable Securities has been declared effective by the SEC.

e. Sufficient Number of Shares Registered. In the event the number of shares available under a Registration Statement filed pursuant to Section 2(a) is insufficient to cover all of the Registrable Securities required to be covered by such Registration Statement or an Investor's allocated portion of the Registrable Securities pursuant to Section 2(b), the Company shall amend the Registration Statement, or file a new Registration Statement (on the short form available therefor, if applicable), or both, so as to cover at least 150% of the number of such Registrable Securities as of the trading day immediately preceding the date of the filing of such amendment or new Registration Statement, in each case, as soon as practicable, but in any event not later than fifteen (15) days after the necessity therefor arises. The Company shall use its best efforts to cause such amendment and/or new Registration Statement to become effective as soon as practicable following the filing thereof. For purposes of the foregoing provision, the number of shares available under a Registration Statement shall be deemed

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"insufficient to cover all of the Registrable Securities" if at any time the number of Registrable Securities issued or issuable upon conversion of the Convertible Debentures and upon exercise of the Warrants, if any, covered by such Registration Statement is greater than the quotient determined by dividing (i) number of shares of Common Stock available for resale under such Registration Statement by (ii) 1.5. The calculation set forth in the foregoing sentence shall be made without regard to any limitations on the conversion of the Convertible Debentures or the exercise of the Warrants and such calculation shall assume that the Convertible Debentures and the Warrants are then convertible into shares of Common Stock at the then prevailing Conversion Rate (as defined in the Convertible Debenture) or Warrant Exercise Price (as defined in the Warrants), if applicable.

f. Effect of Failure to File and Obtain and Maintain Effectiveness of Registration Statement. If (i) a Registration Statement covering all the Registrable Securities and required to be filed by the Company pursuant to this Agreement is (A) not filed with the SEC on or before the Filing Deadline or (B) not declared effective by the SEC on or before the Effectiveness Deadline or (ii) on any day after such Registration Statement has been declared effective by the SEC sales of all the Registrable Securities required to be included on such Registration Statement cannot be made (other than during an Allowable Grace Period (as defined in Section 3(r)) pursuant to the Registration Statement (including, without limitation, because of a failure to keep the Registration Statement effective, to disclose such information as is necessary for sales to be made pursuant to such Registration Statement or to register sufficient shares of Common Stock), then, as partial relief for the damages to any holder by reason of any such delay in or reduction of its ability to sell the underlying shares of Common Stock (which remedy shall not be exclusive of any other remedies available at law or in equity), the Company shall pay to each holder of Convertible Debentures relating to such Registration Statement an amount in cash equal to the product of (i) the Outstanding Principal Amount (as such term is defined in the Convertible Debenture) paid by such Investor for its Convertible Debentures multiplied by (ii) the product of (i) 0.0005 multiplied by (II) the sum of (x) the number of days after the Filing Deadline that the Registration Statement is not filed with the SEC, plus (y) the number of days

after the Effectiveness Deadline that the Registration Statement is not declared effective by the SEC, plus (z) the number of days, in each instance, after the Registration Statement has been declared effective by the SEC that such Registration Statement is not available (other than during an Allowable Grace Period) for the sale of all the Registrable Securities required to be included on such Registration Statement. The payments to which a holder shall be entitled pursuant to this Section 2(f) are referred to herein as "Registration Delay Payments." Registration Delay Payments shall be paid on the earlier of (I) the last day of the thirty (30) day period during which such Registration Delay Payments are incurred and (II) the third Business Day after the event or failure giving rise to the Registration Delay Payments is cured. In the event the Company fails to make Registration Delay Payments in a timely manner, such Registration Delay Payments shall bear interest at the rate of 1.5% per month (prorated for partial months) until paid in full; provided, however, any such Registration Delay Payments due and owing to Crescent that are not paid in a timely manner shall not bear any interest but instead shall accrue a late fee at the rate of 1.5% per month (prorated for partial months) until paid in full.

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3. Related Obligations.

At such time as the Company is obligated to file a Registration Statement with the SEC pursuant to Section 2(a), 2(d) or 2(e), the Company will use its best efforts to effect the registration of the Registrable Securities in accordance with the intended method of disposition thereof and, pursuant thereto, the Company shall have the following obligations:

a. The Company shall promptly prepare and file with the SEC a Registration Statement with respect to the Registrable Securities (but in no event later than the Filing Deadline) and use its best efforts to cause such Registration Statement relating to the Registrable Securities to become effective as soon as practicable after such filing (but in no event later than the Effectiveness Deadline). The Company shall keep each Registration Statement effective pursuant to Rule 415 at all times until the earlier of (i) the date as of which the Investors may sell all of the Registrable Securities covered by such Registration Statement without restriction pursuant to Rule 144(k) (or successor thereto) promulgated under the 1933 Act or (ii) the date on which the Investors shall have sold all the Registrable Securities covered by such Registration Statement (the "Registration Period"), which Registration Statement (including any amendments or supplements thereto and prospectuses contained therein) shall 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 the light of the circumstances in which they were made, not misleading. The term "best efforts" shall mean, among other things, that the Company shall submit to the SEC, within three (3) Business Days after the Company learns that no review of a particular Registration Statement will be made by the staff of the SEC or that the staff has no further comments on the Registration Statement, as the case may be, and the approval of Legal Counsel pursuant to Section 3(b), a request for acceleration of effectiveness of such Registration Statement to a time and date not later than two Business Days after the submission of such request.

b. Subject to Section 3(r), the Company shall prepare and file with the SEC such amendments (including post-effective amendments) and supplements to a Registration Statement and the prospectus used in connection with such Registration Statement, which prospectus is to be filed pursuant to Rule 424 promulgated under the 1933 Act, as may be necessary to keep such Registration Statement effective at all times during the Registration Period, and, during such period, comply with the provisions of the 1933 Act with respect to the disposition of all Registrable Securities of the Company covered by such Registration Statement until such time as all of such Registrable Securities shall have been disposed of in accordance with the intended methods of disposition by the seller or sellers thereof as set forth in such Registration Statement. In the case of amendments and supplements to a Registration Statement which are required to be filed pursuant to this Agreement (including pursuant to this Section 3(b)) by reason of the Company filing a report on Form 10-K, Form 10-Q or Form 8-K or any analogous report under the Securities Exchange Act of 1934, as amended (the "1934 Act"), the Company shall have incorporated such report by reference into the Registration Statement, if applicable, or shall file such amendments or supplements with the SEC on the same day on which the 1934 Act report is filed which created the requirement for the Company to amend

or supplement the Registration Statement.

c. The Company shall (A) permit Legal Counsel to review and comment upon (i) the Registration Statement at least five (5) Business Days prior to its filing

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with the SEC and (ii) all other Registration Statements and all amendments and supplements to all Registration Statements (except for Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and any similar or successor reports) within a reasonable number of days prior to their filing with the SEC, and (B) not file any Registration Statement or amendment or supplement thereto in a form to which Legal Counsel reasonably objects. The Company shall not submit a request for acceleration of the effectiveness of a Registration Statement or any amendment or supplement thereto without the prior approval of Legal Counsel, which consent shall not be unreasonably withheld. The Company shall furnish to Legal Counsel and each Investor, without charge, (i) copies of any correspondence from the SEC or the staff of the SEC to the Company or its representatives relating to any Registration Statement, (ii) promptly after the same is prepared and filed with the SEC, one copy of any Registration Statement and any amendment(s) thereto, including financial statements and schedules, all documents incorporated therein by reference, if requested by and Investor, and all exhibits and (iii) upon the effectiveness of any Registration Statement, one copy of the prospectus included in such Registration Statement and all amendments and supplements thereto. The Company shall reasonably cooperate with Legal Counsel in performing the Company's obligations pursuant to this Section 3.

d. The Company shall furnish to each Investor whose Registrable Securities are included in any Registration Statement, without charge, (i) promptly after the same is prepared and filed with the SEC, at least one copy of such Registration Statement and any amendment(s) thereto, including financial statements and schedules, all documents incorporated therein by reference, if requested by and Investor, all exhibits and each preliminary prospectus, (ii) upon the effectiveness of any Registration Statement, ten (10) copies of the prospectus included in such Registration Statement and all amendments and supplements thereto (or such other number of copies as such Investor may reasonably request) and (iii) such other documents, including copies of any preliminary or final prospectus, as such Investor may reasonably request from time to time in order to facilitate the disposition of the Registrable Securities owned by such Investor.

e. Subject to Section 3(r), the Company shall use its reasonable best efforts to (i) register and qualify, unless an exemption from registration and qualification applies, the resale by Investors of the Registrable Securities covered by a Registration Statement under such other securities or "blue sky" laws of all applicable jurisdictions in the United States, (ii) prepare and file in those jurisdictions, such amendments (including post-effective amendments) and supplements to such registrations and qualifications as may be necessary to maintain the effectiveness thereof during the Registration Period, (iii) take such other actions as may be necessary to maintain such registrations and qualifications in effect at all times during the Registration Period, and (iv) take all other actions reasonably necessary or advisable to qualify the Registrable Securities for sale in such jurisdictions; provided, however, that the Company shall not be required in connection therewith or as a condition thereto to (x) qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 3(e), (y) subject itself to general taxation in any such jurisdiction, or (z) file a general consent to service of process in any such jurisdiction. The Company shall promptly notify Legal Counsel and each Investor who holds Registrable Securities of the receipt by the Company of any notification with respect to the suspension of the registration or qualification of any of the Registrable Securities for sale under the securities or "blue sky" laws of any jurisdiction in the

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United States or its receipt of actual notice of the initiation or threatening of any proceeding for such purpose.

f. The Company shall notify Legal Counsel and each Investor in writing of the happening of any event, as promptly as practicable after becoming aware of such event, as a result of which the prospectus included in a Registration Statement, as then in effect, includes an untrue statement of a material fact or omission 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 (provided that in no event shall such notice contain any material, nonpublic information), and, subject to Section 3(r), promptly prepare a supplement or amendment to such Registration Statement to correct such untrue statement or omission, and deliver ten (10) copies of such supplement or amendment to Legal Counsel and each Investor (or such other number of copies as Legal Counsel or such Investor may reasonably request). The Company shall also promptly notify Legal Counsel and each Investor in writing (i) when a prospectus or any prospectus supplement or post-effective amendment has been filed, and when a Registration Statement or any post-effective amendment covering any Registrable Securities has become effective (notification of such effectiveness shall be delivered to Legal Counsel and each Investor by facsimile on the same day of such effectiveness and by overnight mail), (ii) of any request by the SEC for amendments or supplements to a Registration Statement or any related prospectus or related information, and (iii) of the Company's reasonable determination that a post-effective amendment to a Registration Statement would be appropriate.

g. Subject to Section 3(r), the Company shall use its reasonable best efforts to prevent the issuance of any stop order or other suspension of effectiveness of a Registration Statement, or the suspension of the qualification of any of the Registrable Securities for sale in any jurisdiction and, if such an order or suspension is issued, to obtain the withdrawal of such order or suspension at the earliest possible moment and to notify Legal Counsel and each Investor who holds Registrable Securities being sold of the issuance of such order and the resolution thereof or its receipt of actual notice of the initiation or threat of any proceeding for such purpose.

h. At the reasonable request of any Investor, the Company shall furnish to such Investor, on the date of the effectiveness of the Registration Statement and thereafter from time to time on such dates as an Investor may reasonably request (i) a letter, dated such date, from the Company's independent certified public accountants in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the Investors, and (ii) an opinion, dated as of such date, of counsel representing the Company for purposes of such Registration Statement, in form, scope and substance as is customarily given in an underwritten public offering, addressed to the Investors.

i. [Intentionally omitted.]

j. The Company shall hold in confidence and not make any disclosure of information concerning an Investor provided to the Company unless (i) disclosure of such information is necessary to comply with federal or state securities laws, (ii) the disclosure of such information is necessary to avoid or correct a misstatement or omission in any Registration Statement, (iii) the release of such information is ordered pursuant to a subpoena or

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other final, non-appealable order from a court or governmental body of competent jurisdiction, or (iv) such information has been made generally available to the public other than by disclosure in violation of this Agreement or any other agreement. The Company agrees that it shall, upon learning that disclosure of such information concerning an Investor is sought in or by a court or governmental body of competent jurisdiction or through other means, give prompt written notice to such Investor and allow such Investor, at the Investor's expense, to undertake appropriate action to prevent disclosure of, or to obtain a protective order for, such information.

k. The Company shall use its best efforts either to

(i) cause all the Registrable Securities covered by a Registration Statement to be listed on each securities exchange on which securities of the same class or series issued by the Company are then listed, if any, if the listing of such Registrable Securities is then permitted under the rules of such exchange, or (ii) secure designation and quotation of all the Registrable Securities covered by the Registration Statement on the Nasdaq National Market, or (iii) if, despite the Company's best efforts to satisfy the preceding clause (i) or (ii), the Company is unsuccessful in satisfying the preceding clause (i) or (ii), to secure the inclusion for quotation on The Nasdaq SmallCap Market for such Registrable Securities and, without limiting the generality of the foregoing, to use its best efforts to arrange for at least two market makers to register with the National Association of Securities Dealers, Inc. ("NASD") as such with respect to such Registrable Securities. The Company shall pay all fees and expenses in connection with satisfying its obligation under this Section 3(k).

1. The Company shall cooperate with the Investors who hold Registrable Securities being offered and, to the extent applicable, facilitate the timely preparation and delivery of certificates (not bearing any restrictive legend) representing the Registrable Securities to be offered pursuant to a Registration Statement and enable such certificates to be in such denominations or amounts, as the case may be, as the Investors may reasonably request and registered in such names as the Investors may request.

m. If requested by an Investor, the Company shall (i) as soon as practicable incorporate in a prospectus supplement or post-effective amendment such information as such Investor reasonably requests to be included therein relating to the sale and distribution of Registrable Securities, including, without limitation, information with respect to the number of Registrable Securities being offered or sold, the purchase price being paid therefor and any other terms of the offering of the Registrable Securities to be sold in such offering; (ii) as soon as practicable make all required filings of such prospectus supplement or post-effective amendment after being notified of the matters to be incorporated in such prospectus supplement or post-effective amendment; and (iii) as soon as practicable, supplement or make amendments to any Registration Statement if reasonably requested by an Investor holding any Registrable Securities.

n. The Company shall use its reasonable best efforts to cause the Registrable Securities covered by the Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to consummate the disposition of such Registrable Securities.

o. The Company shall make generally available to its security holders as soon as practical, but not later than ninety (90) days after the close of the period covered

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thereby, an earnings statement (in form complying with, and in the manner provided by, the provisions of Rule 158 under the 1933 Act) covering a twelve-month period beginning not later than the first day of the Company's fiscal quarter next following the effective date of a Registration Statement.

p. The Company shall otherwise use its best efforts to comply with all applicable rules and regulations of the SEC in connection with any registration hereunder.

q. Within two (2) Business Days after a Registration Statement which covers Registrable Securities is ordered effective by the SEC, the Company shall deliver, and shall cause legal counsel for the Company to deliver, to the transfer agent for such Registrable Securities (with copies to the Investors whose Registrable Securities are included in such Registration Statement) confirmation that such Registration Statement has been declared effective by the SEC in the form attached hereto as Exhibit A.

r. Notwithstanding anything to the contrary herein, at any time after the Registration Statement has been declared effective by the SEC, the Company may delay the disclosure of material non-public information concerning the Company the disclosure of which at the time is not, in the good faith opinion of the Board of Directors of the Company and its counsel, in the best interest of the Company and, in the opinion of counsel to the Company,

otherwise required (a "Grace Period"); provided, that the Company shall promptly (i) notify the Investors in writing of the existence of material non-public information giving rise to a Grace Period (provided that in each notice the Company will not disclose the content of such material non-public information to the Investors) and the date on which the Grace Period will begin, and (ii) notify the Investors in writing of the date on which the Grace Period ends; and, provided further, that the same event shall not constitute the basis for more than one Grace Period and that no Grace Period shall exceed fifteen (15) consecutive days and during any three hundred sixty five (365) day period such Grace Periods shall not exceed an aggregate of thirty (30) days and the first day of any Grace Period must be at least two (2) trading days after the last day of any prior Grace Period (an "Allowable Grace Period"). For purposes of determining the length of a Grace Period above, the Grace Period shall begin on and include the date the Investors receive the notice referred to in clause (i) and shall end on and include the later of the date the Investors receive the notice referred to in clause (ii) and the date referred to in such notice. The provisions of Section 3(g) hereof shall not be applicable during the period of any Allowable Grace Period. Upon expiration of the Grace Period, the Company shall again be bound by the first sentence of Section 3(f) with respect to the information giving rise thereto unless such material non-public information is no longer applicable.

4. Obligations Of The Investors.

a. At least five (5) Business Days prior to the first anticipated filing date of a Registration Statement, the Company shall notify each Investor in writing of the information the Company requires from each such Investor if such Investor elects to have any of such Investor's Registrable Securities included in such Registration Statement. It shall be a condition precedent to the obligations of the Company to complete the registration pursuant to this Agreement with respect to the Registrable Securities of a particular Investor that such Investor shall furnish to the Company such information regarding itself, the Registrable Securities held by

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it and the intended method of disposition of the Registrable Securities held by it as shall be reasonably required to effect the effectiveness of the registration of such Registrable Securities and shall execute such documents in connection with such registration as the Company may reasonably request.

b. Each Investor, by such Investor's acceptance of the Registrable Securities, agrees to cooperate with the Company as reasonably requested by the Company in connection with the preparation and filing of any Registration Statement hereunder, unless such Investor has notified the Company in writing of such Investor's election to exclude all of such Investor's Registrable Securities from such Registration Statement.

c. Each Investor agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in Section 3(g) or the first sentence of 3(f), such Investor will immediately discontinue disposition of Registrable Securities pursuant to any Registration Statement(s) covering such Registrable Securities until such Investor's receipt of the copies of the supplemented or amended prospectus contemplated by Section 3(g) or the first sentence of 3(f) or receipt of notice that no supplement or amendment is required. Notwithstanding anything to the contrary, the Company shall cause its transfer agent to deliver unlegended shares of Common Stock to a transferee of an Investor in accordance with the terms of the Securities Purchase Agreement in connection with any sale of Registrable Securities with respect to which an Investor has entered into a contract for sale prior to the Investor's receipt of a notice from the Company of the happening of any event of the kind described in Section 3(g) or the first sentence of 3(f) and for which the Investor has not yet settled.

5. Expenses Of Registration.

All reasonable expenses, other than underwriting discounts and commissions, incurred in connection with registrations, filings or qualifications pursuant to Sections 2 and 3, including, without limitation, all registration, listing and qualifications fees, printers and accounting fees, and fees and disbursements of counsel for the Company shall be paid by the Company. The Company shall also reimburse the Investors for the fees and disbursements of

Legal Counsel in connection with registration, filing or qualification pursuant to Sections 2 and 3 of this Agreement which amount shall be limited to \$15,000. In addition, the Company shall pay all of the Investors' reasonable costs (including legal fees) incurred in connection with the successful enforcement of the Investors' rights hereunder.

6. Indemnification.

In the event any Registrable Securities are included in a Registration Statement under this Agreement:

a. To the fullest extent permitted by law, the Company will, and hereby does, indemnify, hold harmless and defend each Investor, the directors, officers, partners, employees, agents, brokers, including brokers who offer or sell registrable securities as principal as a result of a pledge or any failure to perform under a margin call of registrable securities, representatives of, and each Person, if any, who controls any Investor within the meaning of the 1933 Act or the 1934 Act (each, an "Indemnified Person"), against any losses, claims, damages, liabilities, judgments, fines, penalties, charges, costs, reasonable attorneys' fees, amounts paid in settlement or expenses, joint or several, (collectively, "Claims") incurred in investigating,

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preparing or defending any action, claim, suit, inquiry, proceeding, investigation or appeal taken from the foregoing by or before any court or governmental, administrative or other regulatory agency, body or the SEC, whether pending or threatened, whether or not an indemnified party is or may be a party thereto ("Indemnified Damages"), to which any of them may become subject insofar as such Claims (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon: (i) any untrue statement or alleged untrue statement of a material fact in a Registration Statement or any post-effective amendment thereto or in any filing made in connection with the qualification of the offering under the securities or other "blue sky" laws of any jurisdiction in which Registrable Securities are offered ("Blue Sky Filing"), or the omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus if used prior to the effective date of such Registration Statement, or contained in the final prospectus (as amended or supplemented, if the Company files any amendment thereof or supplement thereto with the SEC) or the omission or alleged omission to state therein any material fact necessary to make the statements made therein, in light of the circumstances under which the statements therein were made, not misleading, (iii) any violation or alleged violation by the Company of the 1933 Act, the 1934 Act, any other law, including, without limitation, any state securities law, or any rule or regulation thereunder relating to the offer or sale of the Registrable Securities pursuant to a Registration Statement or (iv) any material violation of this Agreement (the matters in the foregoing clauses (i) through (iv) being, collectively, "Violations"). Subject to Section 6(c), the Company shall reimburse the Indemnified Persons, promptly as such expenses are incurred and are due and payable, for any legal fees or other reasonable expenses incurred by them in connection with investigating or defending any such Claim. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Section 6(a): (i) shall not apply to a Claim by an Indemnified Person arising out of or based upon a Violation which occurs in reliance upon and in conformity with information furnished in writing to the Company by such Indemnified Person for such Indemnified Person expressly for use in connection with the preparation of the Registration Statement or any such amendment thereof or supplement thereto, if such prospectus was timely made available by the Company pursuant to Section 3(d); (ii) with respect to any preliminary prospectus, shall not inure to the benefit of any such person from whom the person asserting any such Claim purchased the Registrable Securities that are the subject thereof (or to the benefit of any person controlling such person) if the untrue statement or omission of material fact contained in the preliminary prospectus was corrected in the prospectus, as then amended or supplemented, if such prospectus was timely made available by the Company pursuant to Section 3(d), and the Indemnified Person was promptly advised in writing not to use the incorrect prospectus prior to the use giving rise to a violation and such Indemnified Person, notwithstanding such advice, used it or failed to deliver the correct

prospectus as required by the 1933 Act and such correct prospectus was timely made available pursuant to Section 3(d); (iii) shall not be available to the extent such Claim is based on a failure of the Investor to deliver or to cause to be delivered the prospectus made available by the Company, including a corrected prospectus, if such prospectus or corrected prospectus was timely made available by the Company pursuant to Section 3(d); and (iv) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of the Company, which consent shall not be unreasonably withheld or delayed. Such indemnity shall remain in full force and effect regardless of any investigation made by or on

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behalf of the Indemnified Person and shall survive the transfer of the Registrable Securities by the Investors pursuant to Section 9.

b. In connection with any Registration Statement in which an Investor is participating, each such Investor agrees to severally and not jointly indemnify, hold harmless and defend, to the same extent and in the same manner as is set forth in Section 6(a), the Company, each of its directors, each of its officers who signs the Registration Statement and each Person, if any, who controls the Company within the meaning of the 1933 Act or the 1934 Act (each, an "Indemnified Party"), against any Claim or Indemnified Damages to which any of them may become subject, under the 1933 Act, the 1934 Act or otherwise, insofar as such Claim or Indemnified Damages arise out of or are based upon any Violation, in each case to the extent, and only to the extent, that such Violation occurs in reliance upon and in conformity with written information furnished to the Company by such Investor expressly for use in connection with such Registration Statement; and, subject to Section 6(c), such Investor will reimburse any legal or other expenses reasonably incurred by an Indemnified Party in connection with investigating or defending any such Claim; provided, however, that the indemnity agreement contained in this Section 6(b) and the agreement with respect to contribution contained in Section 7 shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of such Investor, which consent shall not be unreasonably withheld or delayed; provided, further, however, that the Investor shall be liable under this Section 6(b) for only that amount of a Claim or Indemnified Damages as does not exceed the net proceeds to such Investor as a result of the sale of Registrable Securities pursuant to such Registration Statement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Indemnified Party and shall survive the transfer of the Registrable Securities by the Investors pursuant to Section 9. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Section 6(b) with respect to any preliminary prospectus shall not inure to the benefit of any Indemnified Party if the untrue statement or omission of material fact contained in the preliminary prospectus was corrected on a timely basis in the prospectus, as then amended or supplemented.

c. Promptly after receipt by an Indemnified Person or Indemnified Party under this Section 6 of notice of the commencement of any action or proceeding (including any governmental action or proceeding) involving a Claim, such Indemnified Person or Indemnified Party shall, if a Claim in respect thereof is to be made against any indemnifying party under this Section 6, deliver to the indemnifying party a written notice of the commencement thereof, and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume control of the defense thereof with counsel mutually satisfactory to the indemnifying party and the Indemnified Person or the Indemnified Party, as the case may be; provided, however, that an Indemnified Person or Indemnified Party shall have the right to retain its own counsel with the fees and expenses of not more than one counsel for such Indemnified Person or Indemnified Party to be paid by the indemnifying party, if, in the reasonable opinion of counsel retained by the indemnifying party, the representation by such counsel of the Indemnified Person or Indemnified Party and the indemnifying party would be inappropriate due to actual or potential differing interests between such Indemnified Person or Indemnified Party and any other party represented by such counsel in such proceeding. In the case of an Indemnified Person, legal counsel referred to in the immediately preceding sentence shall be selected by the Investors holding at least two-thirds in interest of the Registrable Securities

included in the Registration Statement to which the Claim relates. The Indemnified Party or Indemnified Person shall cooperate fully with the indemnifying party in connection with any negotiation or defense of any such action or Claim by the indemnifying party and shall furnish to the indemnifying party all information reasonably available to the Indemnified Party or Indemnified Person which relates to such action or Claim. The indemnifying party shall keep the Indemnified Party or Indemnified Person fully apprized at all times as to the status of the defense or any settlement negotiations with respect thereto. No indemnifying party shall be liable for any settlement of any action, claim or proceeding effected without its prior written consent, provided, however, that the indemnifying party shall not unreasonably withhold, delay or condition its consent. No indemnifying party shall, without the prior written consent of the Indemnified Party or Indemnified Person, consent to entry of any judgment or enter into any settlement or other compromise which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party or Indemnified Person of a release from all liability in respect to such Claim or litigation. Following indemnification as provided for hereunder, the indemnifying party shall be subrogated to all rights of the Indemnified Party or Indemnified Person with respect to all third parties, firms or corporations relating to the matter for which indemnification has been made. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall not relieve such indemnifying party of any liability to the Indemnified Person or Indemnified Party under this Section 6, except to the extent that the indemnifying party is prejudiced in its ability to defend such action.

d. The indemnification required by this Section 6 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or Indemnified Damages are incurred.

e. The indemnity agreements contained herein shall be in addition to (i) any cause of action or similar right of the Indemnified Party or Indemnified Person against the indemnifying party or others, and (ii) any liabilities the indemnifying party may be subject to pursuant to the law.

7. Contribution.

To the extent any indemnification by an indemnifying party is prohibited or limited by law, the indemnifying party agrees to make the maximum contribution with respect to any amounts for which it would otherwise be liable under Section 6 to the fullest extent permitted by law; provided, however, that: (i) no person involved in the sale of Registrable Securities which person is guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) in connection with such sale shall be entitled to contribution from any person involved in such sale of Registrable Securities who was not guilty of fraudulent misrepresentation; and (ii) contribution by any seller of Registrable Securities shall be limited in amount to the net amount of proceeds received by such seller from the sale of such Registrable Securities pursuant to such Registration Statement.

8. [Intentionally omitted.]

9. Assignment of Registration Rights.

The rights under this Agreement shall be automatically assignable by the Investors to any transferee of all or a portion of Registrable Securities if: (i) the Investor agrees in writing with the transferee or assignee to assign such rights, and a copy of such agreement is furnished to the Company within a reasonable time after such assignment; (ii) the Company is, within a reasonable time after such transfer or assignment, furnished with

written notice of (a) the name and address of such transferee or assignee, and (b) the securities with respect to which such registration rights are being transferred or assigned; (iii) immediately following such transfer or assignment the further disposition of such securities by the transferee or assignee is restricted under the 1933 Act and applicable state securities laws; (iv) at or before the time the Company receives the written notice contemplated by clause (ii) of this sentence the transferee or assignee agrees in writing with the Company to be bound by all of the provisions contained herein; and (v) such transfer shall have been made in accordance with the applicable requirements of the Securities Purchase Agreement.

10. Amendment of Registration Rights.

Provisions of this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and Investors who then hold at least two-thirds of the Registrable Securities. Any amendment or waiver effected in accordance with this Section 10 shall be binding upon each Investor and the Company. No such amendment shall be effective to the extent that it applies to less than all of the holders of the Registrable Securities. No consideration shall be offered or paid to any Person to amend or consent to a waiver or modification of any provision of any of this Agreement unless the same consideration also is offered to all of the parties to this Agreement.

11. Miscellaneous.

a. A Person is deemed to be a holder of Registrable Securities whenever such Person owns or is deemed to own of record such Registrable Securities. If the Company receives conflicting instructions, notices or elections from two or more Persons with respect to the same Registrable Securities, the Company shall act upon the basis of instructions, notice or election received from the such record owner of such Registrable Securities.

b. Any notices, consents, waivers or other communications required or permitted to be given under the terms of this Agreement must be in writing and will be deemed to have been delivered: (i) upon receipt, when delivered personally; (ii) upon receipt, when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party); or (iii) one (1) Business Day after deposit with a nationally recognized overnight delivery service, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:

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If to the Company:

Sorrento Networks Corporation
9990 Mesa Rim Road
San Diego, California 92121
Telephone: 858-558-3960
Facsimile: 858-558-3974
Attention: General Counsel

With a copy to:

Greenbaum, Rowe, Smith, Ravin, Davis &
Himmel, LLP
99 Wood Avenue South
P.O. Box 5600
Woodbridge, New Jersey 07095
Telephone: 732-549-5600
Facsimile: 732-549-1881
Attention: W. Raymond Felton

If to Legal Counsel:

Bingham Dana LLP
399 Park Avenue
New York, New York 10022

If to a Buyer, to its address and facsimile number set forth on the Schedule of Buyers attached hereto, with copies to such Buyer's representatives as set forth on the Schedule of Buyers, or to such other address and/or facsimile number and/or to the attention of such other person as the recipient party has specified by written notice given to each other party five (5) days prior to the effectiveness of such change. Written confirmation of receipt (A) given by the recipient of such notice, consent, waiver or other communication, (B) mechanically or electronically generated by the sender's facsimile machine containing the time, date, recipient facsimile number and an image of the first page of such transmission or (C) provided by a courier or overnight courier service shall be rebuttable evidence of personal service, receipt by facsimile or receipt from a nationally recognized overnight delivery service in accordance with clause (i), (ii) or (iii) above, respectively.

c. Failure of any party to exercise any right or remedy under this Agreement or otherwise, or delay by a party in exercising such right or remedy, shall not operate as a waiver thereof.

d. All questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by the internal laws of the State of New York, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of New York or any other jurisdictions) that would cause the application of the laws of

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any jurisdictions other than the State of New York. Each party hereby irrevocably submits to the jurisdiction of the federal courts sitting the City of New York, borough of Manhattan and the state courts located in the borough of Manhattan, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address for such notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement in that jurisdiction or the validity or enforceability of any provision of this Agreement in any other jurisdiction. EACH PARTY HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION HERewith OR ARISING OUT OF THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED HEREBY.

e. This Agreement, the Securities Purchase Agreement, the Warrants and the Convertible Debenture constitute the entire agreement among the parties hereto with respect to the subject matter hereof and thereof. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein and therein. This Agreement, the Securities Purchase Agreement, the Warrant and the Convertible Debenture supersede all prior agreements and understandings among the parties hereto with respect to the subject matter hereof and thereof.

f. Subject to the requirements of Section 9, this Agreement shall inure to the benefit of and be binding upon the permitted successors and assigns of each of the parties hereto.

g. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

h. This Agreement may be executed in identical counterparts, each of which shall be deemed an original but all of which shall

constitute one and the same agreement. This Agreement, once executed by a party, may be delivered to the other party hereto by facsimile transmission of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

i. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

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j. All consents and other determinations required to be made by the Investors pursuant to this Agreement shall be made, unless otherwise specified in this Agreement, by Investors holding at least two-thirds of the Registrable Securities, determined as if all of the Convertible Debentures held by Investors then outstanding have been converted into Registrable Securities and all Warrants then outstanding have been exercised for Registrable Securities without regard to any limitations on conversion of the Convertible Debentures or on exercises of the Warrants.

k. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent and no rules of strict construction will be applied against any party.

l. This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other Person.

* * * * *

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

COMPANY:

SORRENTO NETWORKS CORPORATION

By: /s/ Joe R. Armstrong

Name: Joe R. Armstrong
Title: Chief Financial Officer

BUYERS:

DEUTSCHE BANC ALEX. BROWN INC.,
as agent for DEUTSCHE BANK AG,
LONDON BRANCH

By: /s/ Daniel Gold

Name: Daniel Gold
Title: Managing Director

By: /s/ Nicholas Brumm

Name: Nicholas Brumm
Title: Director

SOCIETE GENERALE

By: /s/ Guillaume Pollet

Name: Guillaume Pollet
Title: Managing Director

ZLP MASTER FUND, LTD.

By: /s/ Stuart J. Zimmer

Name: Stuart J. Zimmer
Title: Director

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ZLP MASTER TECHNOLOGY FUND, LTD.

By: /s/ Stuart J. Zimmer

Name: Stuart J. Zimmer
Title: Director

STEELHEAD INVESTMENTS LTD.

By: /s/ Kevin O'Neal

Name: Kevin O'Neal
Title: Authorized Signatory

CRESCENT INTERNATIONAL, LTD.

By: _____
Name: _____
Title: _____

RIVER VIEW, LLC

By: /s/ Terry Feeney

Name: Terry Feeney
Title: Chief Financial Officer

VERTICAL INTERNATIONAL LIMITED

By: /s/ Kenneth L. Henderson

Name: Kenneth L. Henderson
Title: Attorney-in-Fact

GRYPHON MASTER FUND, L.P.

By: /s/ E.B. Lyon

Name: E.B. Lyon
Title: Partner

LANGLEY PARTNERS, L.P.

By: /s/ Jeffrey Thorp

Name: Jeffrey Thorp
Title: Managing Member

ELLIOTT ASSOCIATES, L.P.

By: /s/ Elliot Greenberg

Name: Elliot Greenberg
Title: Vice President

SCHEDULE OF BUYERS

<TABLE>
<CAPTION>

Investor Name	Investor Address and Facsimile Number	Principal Amount of Debentures	Escrow Amount	Number of Warrants	Investor's Representatives' Address and Facsimile Number
<S> Deutsche Bank AG , London Branch	<C> C/o Deutsche Banc Alex. Brown. Inc. 31 West 52nd Street (16th Floor) New York, NY 10019 Attn: Daniel Gold/Nick Brumm/Tracy Fu 212-469-5787	<C> 7,500,000	<C> 2,386,172.95	<C> 780,708	<C> C/o Deutsche Banc Alex.Brown. Inc. 31 West 52nd Street (16th Floor) New York, NY 10019 Attn: Daniel Gold/Nick Brumm/Tracy Fu 212-469-5787
Gryphon Master Fund*	45 Rockefeller Plaza Suite 2038 New York, NY 10011 Attn: Michael Fein 212-332-5050	3,000,000	954,469.18	312,283	45 Rockefeller Plaza Suite 2038 New York, NY 10011 Attn: Michael Fein 212-332-5050
Zimmer Lucas Partners	45 Broadway, 28th Floor New York, NY 10006 Attn: Stuart Zimmer 212-440-0750	5,000,000	1,590,781.97	520,472	45 Broadway, 28th Floor New York, NY 10006 Attn: Stuart Zimmer 212-440-0750
Societe Generale	1221 Avenue of the Americas New York, NY 10020 Attn: Guillaume Pollet 212-278-5467	4,000,000	1,272,625.57	416,378	1221 Avenue of the Americas Attn: Guillaume Pollet New York, NY 10020 212-278-5467
Vertical Ventures*	160 Central Park South New York, NY 10019 Attn: Scott Cohen/Josh Silverman 212-974-2365	3,000,000	954,469.18	312,283	160 Central Park South New York, NY 10019 Attn: Scott Cohen/Josh Silverman 212-974-2365
Crescent International, Ltd.	C/O Greenlight 84 Avenue Louis Casai, 1216 Cointrin Geneva, Switzerland Attn: Ali Dadressan 011-4122-791-72-98	1,200,000	381,787.67	124,913	C/O Greenlight 84 Avenue Louis Casai, 1216 Cointrin Geneva, Switzerland Attn: Ali Dadressan 011-4122-791-72-98
River View LLC	C/o Millenium Partners 666 5th Avenue New York, NY 10103 Attn: Dan Cardella 212-841-6302	2,000,000	636,312.79	208,189	C/o Millenium Partners 666 5th Avenue New York, NY 10103 Attn: Dan Cardella 212-841-6302

Elliott Associates, L.P.*	45 Rockefeller Plaza Suite 2038 New York, NY 10011 Attn: Michael Fein 212-332-5050	1,000,000	317,765.18	104,094	45 Rockefeller Plaza Suite 2038 New York, NY 10011 Attn: Michael Fein 212-332-5050
Langley Partners, L.P.*	45 Rockefeller Plaza Suite 2038 New York, NY 10011 Attn: Michael Fein 212-332-5050	3,000,000	954,469.18	312,283	45 Rockefeller Plaza Suite 2038 New York, NY 10011 Attn: Michael Fein 212-332-5050
Steelhead Investments Ltd.*	45 Rockefeller Plaza Suite 2038 New York, NY 10011 Attn: Michael Fein 212-332-5050	2,500,000	795,782.28	260,236	45 Rockefeller Plaza Suite 2038 New York, NY 10011 Attn: Michael Fein 212-332-5050

</TABLE>

*With a copy to:

Robinson Silverman Pearce Aronsohn & Berman LLP
1290 Avenue of the Americas
New York, NY 10104
Attn: Eric L. Cohn, Esq.
212-541-1432

EXHIBIT A

FORM OF NOTICE OF EFFECTIVENESS
OF REGISTRATION STATEMENT

[Transfer Agent]
Attn:

Re: Sorrento Networks Corporation

Ladies and Gentlemen:

We are counsel to Sorrento Networks Corporation, a New Jersey corporation (the "Company"), and have represented the Company in connection with that certain Securities Purchase Agreement (the "Purchase Agreement") entered into by and among the Company and the buyers named therein (collectively, the "Holders") pursuant to which the Company issued to the Holders shares of its 9.75% Senior Convertible Debentures, (the "Convertible Debentures") convertible into shares of the Company's Common Stock, par value \$0.30 per share (the "Common Stock"), or subject to the terms thereof, Series F Preferred Stock of the Company, and warrants exercisable for shares of its Common Stock, or subject to the terms thereof, Series F Preferred Stock of the Company (the "Warrants"). Pursuant to the Purchase Agreement, the Company also has entered into a Registration Rights Agreement with the Holders (the "Registration Rights Agreement") pursuant to which the Company agreed, among other things, to register the Registrable Securities (as defined in the Registration Rights Agreement), including the shares of Common Stock issuable upon conversion of the Convertible Debentures and exercise of the Warrants under the Securities Act of 1933, as amended (the "1933 Act"). In connection with the Company's obligations under the Registration Rights Agreement, on _____, 200_, the Company filed a Registration Statement on Form S-3 (File No. 333-_____) (the "Registration Statement") with the Securities and Exchange Commission (the "SEC") relating to the Registrable Securities which names each of the Holders as a selling stockholder thereunder.

In connection with the foregoing, we advise you that a member of the SEC's staff has advised us by telephone that the SEC entered an order declaring the Registration Statement effective under the 1933 Act at [ENTER TIME OF EFFECTIVENESS] on [ENTER DATE OF EFFECTIVENESS] and we have no knowledge, after telephonic inquiry of a member of the SEC's staff, that any stop order suspending its effectiveness has been issued or that any proceedings for that purpose are pending before, or threatened by, the SEC and the Registrable Securities are available for resale under the 1933 Act pursuant to the Registration Statement.

Very truly yours,

By: _____

CC: [LIST NAMES OF HOLDERS]

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