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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2008

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 000-30229

SONUS NETWORKS, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE	**04-3387074**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

7 Technology Park Drive, Westford, Massachusetts 01886
(Address of principal executive offices, including zip code)

(978) 614-8100
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer ☒	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ☒

As of May 2, 2008, there were 271,138,012 shares of the registrant's common stock, $0.001 par value, outstanding.

SONUS NETWORKS, INC.
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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

SONUS NETWORKS, INC.

Condensed Consolidated Balance Sheets

(in thousands, except share data)

(unaudited)

	March 31, 2008	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 179,029	$ 118,933
Marketable securities	197,305	207,088
Accounts receivable, net	66,939	84,951
Inventory	47,714	45,560
Deferred income taxes	30,380	30,683
Litigation settlement escrow	—	25,000
Insurance receivable—litigation settlement	—	15,328
Other current assets	17,578	18,842
Total current assets	538,945	546,385
Property and equipment, net	18,349	18,459
Purchased intangible assets, net	2,463	2,607
Goodwill	8,388	8,397
Long-term investments	31,222	66,568
Deferred income taxes	49,436	49,296
Other assets	2,503	2,338
Total assets	$ 651,306	$ 694,050
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 10,390	$ 17,379
Accrued expenses	23,204	39,980
Litigation settlement liability	—	40,000
Current portion of deferred revenue	90,785	82,743
Current portion of long-term liabilities	1,103	1,079
Total current liabilities	125,482	181,181
Long-term deferred revenue	17,077	16,462
Deferred income taxes	759	760
Long-term liabilities, net of current portion	2,617	2,061
Total liabilities	145,935	200,464
Commitments and contingencies (Note 17)		
Stockholders' equity:		
Preferred stock, $0.01 par value; 5,000,000 shares authorized, none issued and outstanding	—	—
Common stock, $0.001 par value; 600,000,000 shares authorized; 273,432,146 and 272,565,951 shares issued; 271,135,236 and 270,269,041 shares outstanding at March 31, 2008 and December 31, 2007, respectively	273	273
Additional paid-in capital	1,254,861	1,244,232
Accumulated deficit	(751,354)	(751,920)
Accumulated other comprehensive income	1,858	1,268
Treasury stock, at cost; 2,296,910 common shares at March 31, 2008 and December 31, 2007	(267)	(267)
Total stockholders' equity	505,371	493,586
Total liabilities and stockholders' equity	$ 651,306	$ 694,050

See notes to condensed consolidated financial statements (unaudited).

SONUS NETWORKS, INC.

Consolidated Statements of Operations

(in thousands, except per share data)

(unaudited)

	Three months ended March 31,	
	2008	**2007**
Revenue:		
Product	$ 50,984	$ 51,627
Service	23,039	19,519
Total revenue	74,023	71,146
Cost of revenue:		
Product	16,820	17,082
Service	11,075	8,579
Total cost of revenue	27,895	25,661
Gross profit	46,128	45,485
Operating expenses:		
Research and development	20,498	18,698
Sales and marketing	18,941	23,050
General and administrative	9,997	14,062
Total operating expenses	49,436	55,810
Loss from operations	(3,308)	(10,325)
Interest expense	(21)	(4)
Interest income	3,969	4,624
Other income (expense), net	379	(680)
Income (loss) before income taxes	1,019	(6,385)
Income tax benefit (provision)	(453)	2,407
Net income (loss)	$ 566	$ (3,978)
Net income (loss) per share:		
Basic	$ 0.00	$ (0.02)
Diluted	$ 0.00	$ (0.02)
Shares used in computing net income (loss) per share:		
Basic	270,590	259,768
Diluted	271,222	259,768

See notes to condensed consolidated financial statements (unaudited).

SONUS NETWORKS, INC.

Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Three months ended March 31, 2008	Three months ended March 31, 2007
Cash flows from operating activities:		
Net income (loss)	$ 566	$ (3,978)
Adjustments to reconcile net income (loss) to cash flows provided by operating activities:		
Depreciation and amortization of property and equipment	3,316	3,026
Amortization of purchased intangible assets	140	—
Stock-based compensation	8,208	8,869
Deferred income taxes	242	3,206
Increase in fair value of modified stock options held by former employees	—	682
Changes in operating assets and liabilities:		
Accounts receivable	18,228	11,015
Inventory	(1,569)	(4,654)
Insurance receivable—litigation settlement	15,328	—
Other operating assets	2,216	1,439
Accounts payable	(7,384)	1,424
Accrued expenses, deferred rent and accrued restructuring expenses	(17,198)	(10,483)
Litigation settlement liability	(40,000)	—
Deferred revenue	7,430	(3,534)
Net cash provided by (used in) operating activities	(10,477)	7,012
Cash flows from investing activities:		
Purchases of property and equipment	(1,698)	(1,681)
Purchases of available-for-sale marketable securities	(3,100)	(10,703)
Maturities of available-for-sale marketable securities	26,422	6,953
Purchases of held-to-maturity marketable securities and long-term investments	(58,219)	(68,049)
Maturities of held-to-maturity marketable securities and long-term investments	80,005	75,800
Decrease in litigation settlement escrow	25,000	—
Decrease in restricted cash	—	11
Net cash provided by investing activities	68,410	2,331
Cash flows from financing activities:		
Sale of common stock in connection with employee stock purchase plan	2,213	—
Proceeds from exercise of stock options	323	—
Payment of tax withholding obligations related to net share settlements of restricted stock awards	(37)	(189)
Principal payments of capital lease obligations	(61)	(41)
Net cash provided by (used in) financing activities	2,438	(230)
Effect of exchange rate changes on cash and cash equivalents	(275)	61
Net increase in cash and cash equivalents	60,096	9,174
Cash and cash equivalents, beginning of period	118,933	44,206
Cash and cash equivalents, end of period	$ 179,029	$ 53,380
Supplemental disclosure of cash flow information:		
Interest paid	$ 21	$ 11
Income taxes paid	$ 265	$ 1,744
Supplemental disclosure of non-cash investing activities:		
Capital expenditures incurred, but not yet paid	$ 395	$ 1,196
Property and equipment acquired under capital lease	$ 1,071	$ 53

See notes to condensed consolidated financial statements (unaudited).

(1) BASIS OF PRESENTATION

Business

Sonus Networks, Inc. ("Sonus" or the "Company") was incorporated in 1997 and is a leading provider of voice infrastructure solutions for wireline and wireless service providers. Sonus offers a new generation of carrier-class infrastructure equipment and software that enables voice services to be delivered over Internet Protocol packet-based networks. The Company's target customers include both traditional and emerging communications service providers, including long distance carriers, local exchange carriers, Internet service providers, wireless operators, cable operators, international telephone companies and carriers that provide services to other carriers.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by Sonus pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America ("U.S. GAAP") for complete financial statements and should be read in conjunction with the audited consolidated financial statements included in Sonus' Annual Report on Form 10-K for the year ended December 31, 2007.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements have been prepared on the same basis as the audited financial statements, and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of the interim periods presented. The operating results for the interim periods presented are not necessarily indicative of the results expected for the full fiscal year.

On April 13, 2007, the Company completed the acquisition of Zynetix Limited ("Zynetix") (see Note 5). The operating results of Zynetix have been included in the Company's condensed consolidated financial statements for the period subsequent to its acquisition.

The Company operates in a single segment. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker in making decisions regarding resource allocation and assessing performance. To date, the chief operating decision maker has made such decisions and assessed performance at the company level, as one segment. The Company's chief operating decision maker is its President, Chief Executive Officer and Chairman.

Use of Estimates and Judgments

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and judgments relied upon in preparing these financial statements include revenue recognition for multiple element arrangements, allowances for doubtful accounts, estimated fair value of investments, inventory reserves, expected future cash flows used to evaluate the recoverability of long-lived assets, restructuring and other related charges, contingencies associated with revenue contracts, assumptions used to determine

(1) BASIS OF PRESENTATION (Continued)

the fair value of stock-based compensation, assumptions used to determine the fair value of purchased intangible assets, contingent liabilities and recoverability of Sonus' net deferred tax assets and related valuation allowance. Sonus regularly assesses these estimates and records changes in estimates in the period in which they become known. Sonus bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances. Actual results could differ from those estimates.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Sonus and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Recent Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 161, *Disclosures About Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133* ("SFAS 161"). SFAS 161 amends and expands the disclosure requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 also amends SFAS No. 107, *Disclosures About Fair Value of Financial Instruments* ("SFAS 107"), to clarify that derivative instruments are subject to SFAS 107's concentration-of-credit risk disclosures. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Early adoption is permitted, and entities are encouraged, but not required, to provide comparative disclosures for earlier periods. The adoption of SFAS 161 will not affect the Company's consolidated financial statements or financial condition, but may require additional disclosures if the Company enters into derivative and hedging activities.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS 141R"), which revises SFAS No. 141. SFAS 141R establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for fiscal years beginning after December 15, 2008; early adoption is not permitted. The adoption of SFAS 141R will have an impact on accounting for business combinations once adopted, but the effect is dependent upon acquisitions at that time.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 permits an entity to measure certain financial assets and financial liabilities at fair value. Under SFAS 159, entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with a few exceptions, as long as it is applied to the instrument in its entirety. SFAS 159 establishes presentation and disclosure requirements, but does not eliminate disclosure requirements of other accounting standards. Assets and liabilities that are

(1) BASIS OF PRESENTATION (Continued)

measured at fair value must be displayed on the face of the balance sheet. SFAS 159 became effective for fiscal years beginning after November 15, 2007. The Company did not elect to apply the fair value option under SFAS 159 to any instrument as of March 31, 2008.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 provides a single definition of fair value, along with a framework for measuring it, and requires additional disclosure about using fair value to measure assets and liabilities. SFAS 157 emphasizes that fair value measurement is market-based, not entity-specific, and establishes a fair value hierarchy in which the highest priority is quoted prices in active markets. Under SFAS 157, fair value measurements are disclosed according to their level within this hierarchy. While SFAS 157 does not add any new fair value measurements, it does change current practice in certain ways, including requiring entities to include their own credit standing when measuring their liabilities. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position FAS 157-2, *Effective Date of FASB Statement No. 157* ("FSP 157-2"), which delays the effective date of SFAS 157 for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. The nonfinancial assets and nonfinancial liabilities to which SFAS 157 was not applied for the three months ended March 31, 2008 are included under the captions Property and equipment, net; Purchased intangible assets, net; and Goodwill in the Company's condensed consolidated balance sheets. The partial adoption of SFAS 157 for financial assets and financial liabilities did not impact the Company's consolidated results of operations or financial condition. See Note 10.

(2) REVENUE RECOGNITION

Sonus' products are primarily marketed based on the software elements contained therein. In addition, hardware sold generally can not be used apart from the software. Therefore, Sonus considers its principal products to be software-related. Sonus recognizes revenue from product sales when persuasive evidence of an arrangement exists, delivery has occurred, the sale price is fixed or determinable and collectibility of the related receivable is probable under customary payment terms. When Sonus has future obligations, including a requirement to deliver additional elements which are essential to the functionality of the delivered elements or for which vendor-specific objective evidence of fair value ("VSOE") does not exist or when customer acceptance is required, Sonus defers revenue recognition and related costs until those obligations are satisfied. The ordering patterns and sales lead times associated with customer orders may vary significantly from period to period.

Many of the Company's sales involve complex multiple-element arrangements. When a sale includes multiple elements, such as products, maintenance and/or professional services, Sonus recognizes revenue using the residual method. Revenue associated with elements for which VSOE has been established is recorded based on the VSOE value; any undelivered elements that are not essential to the functionality of the product and for which VSOE has been established is deferred based on the VSOE value and any remaining arrangement fee is then allocated to, and recognized as, product revenue. VSOE is determined based upon the price charged when the same element is sold separately or established by management having the relevant pricing authority. If Sonus cannot establish VSOE for each undelivered element, including specified upgrades, it defers revenue on the entire arrangement

(2) REVENUE RECOGNITION (Continued)

until VSOE for all undelivered elements is known or all elements are delivered and all other revenue recognition criteria are met.

Revenue from maintenance and support services is recognized ratably over the service period. Earned maintenance revenue is deferred until the associated product is accepted by the customer and all other revenue recognition criteria are met. Maintenance and support services include telephone support, return and repair support and unspecified rights to product upgrades and enhancements.

Revenue from installation services is generally recognized when the service is complete and all other revenue recognition criteria have been met. Revenue from other professional services for which VSOE has been established is typically recognized as the services are delivered if all other revenue recognition criteria have been met.

Revenue from consulting, custom development and other professional services-only engagements are recognized as services are rendered.

Sonus records deferred revenue for products delivered or services performed for which collection of the amount billed is either probable or has been collected but other revenue recognition criteria have not been satisfied. Deferred revenue includes customer deposits and amounts associated with maintenance contracts. Deferred revenue expected to be recognized as revenue more than one year subsequent to the balance sheet date is classified as long-term deferred revenue.

Sonus defers recognition of incremental direct costs, such as cost of goods, royalties, commissions and third-party installation costs, until recognition of the related revenue.

Sonus sells the majority of its products directly to its service provider customers. For products sold to resellers and distributors, Sonus generally recognizes revenue on a sell-through basis utilizing information provided to Sonus from its resellers and distributors unless it has at least eight quarters of consistent history with a reseller which eliminates uncertainty regarding potential product returns or refunds, price protection or any other form of concession.

During the fourth quarter of 2007, Sonus began reporting revenue from one of its distributors on a sell-in basis, where revenue is recognized upon the shipment of products to the distributors, assuming all other requirements for revenue recognition have been met. The Company had previously recognized revenue for sales to this distributor when products had been sold through by the distributor to its customers. This change reflects two years of commercial activity with this distributor during which the Company has not authorized or incurred any return of Sonus products or provided any other form of price protection or concession. As a result of this history, the Company determined that the price for products sold to this distributor was fixed or determinable upon sale to the distributor and collection was probable. During the three months ended March 31, 2008, the Company would have recognized approximately $60,000 more revenue, with an immaterial impact to income before income taxes and net income and no impact on diluted net income per share, in connection with sales of products to this distributor if revenue recognition for sales to this distributor had not switched to a sell-in basis and the revenue recognized in the fourth quarter of fiscal 2007.

(3) NET INCOME (LOSS) PER SHARE

Net income (loss) per share is computed in accordance with SFAS No. 128, *Earnings per Share*. Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. For periods in which the Company reports net income, diluted net income per share is determined by using the weighted average number of common and dilutive common equivalent shares outstanding during the period unless the effect is antidilutive. Potential dilutive common shares consist of common stock issuable upon the exercise of stock options under the Company's 2007 Stock Incentive Plan (the "2007 Stock Plan"), 1997 Stock Incentive Plan (the "1997 Stock Plan") and purchases of shares of common stock under the Company's 2000 Employee Stock Purchase Plan (the "ESPP") prior to the effective date of the Amended and Restated ESPP (see Note 11) using the treasury stock method.

The calculation of shares used in computing basic and diluted net income (loss) per share is as follows (in thousands):

	Three months ended March 31,	
	2008	2007
Weighted average shares outstanding—basic	270,590	259,768
Potential dilutive common shares	632	—
Weighted average shares outstanding—diluted	271,222	259,768

The calculations above for the three months ended March 31, 2008 and 2007 exclude options to purchase shares of common stock aggregating approximately 37.3 million shares and 17.3 million shares, respectively, as their effect would be antidilutive.

(4) COMPREHENSIVE INCOME (LOSS)

Sonus' comprehensive income (loss) for the three months ended March 31, 2008 and 2007 is as follows (in thousands):

	Three months ended March 31,	
	2008	2007
Net income (loss)	$ 566	$ (3,978)
Changes in accumulated other comprehensive income (loss):		
Foreign currency translation adjustments	612	61
Unrealized loss on equity securities held as available for sale	(22)	—
Comprehensive income (loss)	$ 1,156	$ (3,917)

(5) ACQUISITION OF ZYNETIX LIMITED

In connection with the acquisition of Zynetix Limited ("Zynetix"), completed on April 13, 2007, the share purchase agreement, as amended, also includes two additional potential payments (the "earnouts") to the selling shareholders: (1) £1,500,000 (U.S. $3.0 million at March 31, 2008) payable on December 31, 2008; and (2) 175,000 shares of Sonus common stock deliverable on April 30, 2009. Both earnouts are contingent upon the business achieving certain predetermined financial and business metrics related to revenue, operating expenses and customer trials. The shares of common stock have been placed into escrow and will be released if the earnout is achieved. Each earnout will be recorded as an addition to the purchase price at the time the contingency is resolved and consideration is distributable. In addition, the Company paid $0.3 million in transaction costs related to the acquisition. The changes in the carrying amounts of goodwill arising from this transaction in the three months ended March 31, 2008 are the result of currency translation adjustments.

(6) CASH EQUIVALENTS, MARKETABLE SECURITIES AND LONG-TERM INVESTMENTS

Cash equivalents and marketable securities are invested in debt and equity instruments, primarily U.S. government, municipal and corporate obligations, which management believes to be high quality instruments. Current marketable securities include held-to-maturity investments with remaining maturities of less than one year as of the balance sheet date and available-for-sale investments that are expected to be sold in the current period or are available for current operations. Long-term investments include held-to-maturity investments with remaining maturities of one to two years as of the balance sheet date. Investments in U.S. government and corporate obligations are classified as held-to-maturity, as Sonus has the intent and ability to hold them to maturity. Held-to-maturity marketable debt securities are reported at amortized costs. The municipal obligations acquired during the three months ended March 31, 2008 are recorded as held-to-maturity. Unrealized gains and losses from available-for-sale marketable securities are not material for all periods presented. The unrealized losses related to these securities at March 31, 2008 are not considered to be a permanent decline in the fair value of such securities. There have been no material realized gains or losses during the three months ended March 31, 2008 and 2007. At December 31, 2007, the Company's investments in state and municipal obligations (auction rate securities) were classified as available for sale and recorded at fair value. These obligations were sold in the first quarter of 2008 and consequently the Company no longer holds any auction rate securities.

(6) CASH EQUIVALENTS, MARKETABLE SECURITIES AND LONG-TERM INVESTMENTS (Continued)

At March 31, 2008 and December 31, 2007, marketable debt and equity securities and long-term investments consisted of the following (in thousands):

	March 31, 2008			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Marketable securities				
Debt securities held-to-maturity:				
U.S. government agency notes	$ 107,976	$ 1,072	$ (13)	$ 109,035
Corporate debt securities	32,587	126	(20)	32,693
Commercial paper	56,627	44	(283)	56,388
	$ 197,190	$ 1,242	$ (316)	$ 198,116
Long-term investments				
Debt securities held-to-maturity:				
Municipal obligations	$ 1,455	$ —	$ —	$ 1,455
U.S. government agency notes	15,664	248	—	15,912
Corporate debt securities	14,103	170	(9)	14,264
	$ 31,222	$ 418	$ (9)	$ 31,631

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities available for sale	$ 137	$ —	$ (22)	$ 115

	December 31, 2007			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Marketable securities				
Debt securities available-for-sale:				
State and municipal obligations	$ 23,300	$ —	$ —	$ 23,300
Debt securities held-to-maturity:				
U.S. government agency notes	81,950	211	(4)	82,157
Corporate debt securities	36,501	13	(35)	36,479
Commercial paper	65,200	146	(4)	65,342
	$ 206,951	$ 370	$ (43)	$ 207,278
Long-term investments				
Debt securities held-to-maturity:				
U.S. government agency notes	$ 47,614	$ 255	$ (4)	$ 47,865
Corporate debt securities	18,954	82	(8)	19,028
	$ 66,568	$ 337	$ (12)	$ 66,893

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities available for sale	$ 137	$ —	$ —	$ 137

(6) CASH EQUIVALENTS, MARKETABLE SECURITIES AND LONG-TERM INVESTMENTS (Continued)

A reconciliation of the Company's debt securities and equity securities to the amounts reported in the condensed consolidated balance sheets under the caption Marketable securities at March 31, 2008 and December 31, 2007 is as follows (in thousands):

	March 31, 2008	December 31, 2007
Debt securities carried at amortized cost	$ 197,190	$ 206,951
Equity securities carried at fair value	115	137
	$ 197,305	$ 207,088

The Company's cash, cash equivalents and investment portfolio holdings were diversified among three financial institutions at March 31, 2008.

The Company's equity securities are comprised of 1,473 shares of Prudential Financial, Inc. common stock. The fair value of the common stock is determined using the closing price per share on the New York Stock Exchange on the last trading day of each reporting period. The Company has classified these equity securities, which are reported as a component of Marketable securities in the Company's condensed consolidated balance sheets at March 31, 2008 and December 31, 2007, as available-for-sale. Accordingly, the unrealized gain or loss resulting from the change in the fair market value of the common stock is reported in Accumulated other comprehensive income in the Company's condensed consolidated balance sheets.

In connection with the move to its new corporate headquarters in Westford, Massachusetts in January 2007, the Company issued a $500,000 standby letter of credit. On January 1, 2008, the amount of the letter of credit was reduced to $400,000. The standby letter of credit may be drawn upon in the event of the Company's noncompliance with the terms and conditions of the sublease for the Westford headquarters facility.

In connection with a customer sales order for which no revenue has been recognized, the Company has issued a €10.0 million (U.S. $15.8 million at March 31, 2008) standby letter of credit. The standby letter of credit may be drawn upon in the event that the customer has a right to a refund of a portion or all of its initial deposit under specific circumstances. The standby letter of credit expires in June 2008.

(7) ACCOUNTS RECEIVABLE

Accounts receivable consist of the following (in thousands):

	March 31, 2008	December 31, 2007
Earned accounts receivable	$ 50,261	$ 54,896
Unearned accounts receivable	17,059	30,529
Accounts receivable, gross	67,320	85,425
Allowance for doubtful accounts	(381)	(474)
Accounts receivable, net	$ 66,939	$ 84,951

(8) INVENTORY

Inventory consists of the following (in thousands):

	March 31, 2008	December 31, 2007
On-hand final assemblies and finished goods inventory	$ 19,953	$ 19,102
Deferred cost of goods sold	32,341	30,018
Evaluation inventory	6,737	6,285
Inventory, gross	59,031	55,405
Evaluation inventory reserve	(6,737)	(6,285)
Excess and obsolescence reserve	(4,250)	(3,560)
Inventory, net	48,044	45,560
Less current portion	(47,714)	(45,560)
Long-term portion (included in Other assets)	$ 330	$ —

(9) ACCRUED EXPENSES

Accrued expenses consist of the following (in thousands):

	March 31, 2008	December 31, 2007
Employee compensation and related costs	$ 10,365	$ 20,892
Employee stock purchase plan	413	2,367
Professional fees	3,876	4,199
Royalties	839	2,373
Income taxes payable	981	1,442
Sales taxes payable	1,113	1,203
Other taxes	3,132	3,471
Other	2,485	4,033
	$ 23,204	$ 39,980

(10) FAIR VALUE MEASUREMENTS

The Company adopted SFAS 157 as of January 1, 2008 for financial assets and financial liabilities. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). SFAS 157 outlines a valuation framework and creates a fair value hierarchy using the following three levels:

Level 1—Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the company has the ability to access at the measurement date.

Level 2—Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.) and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3—Unobservable inputs that reflect the company's assumptions about the assumptions that market participants would use in pricing the asset or liability. The company develops these inputs based on the best information available, including its own data.

In accordance with the fair value hierarchy described above, the following table shows the fair value of the Company's financial assets that are required to be measured at fair value at March 31, 2008, which is comprised of the Company's available-for-sale equity securities, and are included as a component of Marketable securities in the condensed consolidated balance sheet (in thousands):

		Fair value measurements at March 31, 2008 using:		
	Total carrying value at March 31, 2008	**Quoted prices in active markets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Available for sale equity securities	$ 115	$ 115	$ —	$ —

Available-for-sale equity securities are recorded at fair value at each balance sheet date, based on quoted sales prices on the stock exchange on which the shares are traded (see Note 6).

(11) STOCK-BASED COMPENSATION

The Company issues options to purchase its common stock ("stock options") and restricted shares of common stock ("restricted stock") pursuant to the 2007 Stock Plan. The 2007 Stock Plan provides for the award of stock options and restricted stock to employees, officers, directors (including those directors who are not employees or officers of the Company), consultants and advisors of the Company and its subsidiaries. The Company issued stock options and restricted stock pursuant to the 1997 Stock Plan through November 18, 2007, when the 1997 Stock Plan expired.

On January 25, 2008, the Company's Board of Directors approved the Amended and Restated ESPP. Effective March 1, 2008, the Amended and Restated ESPP eliminates the original ESPP's two-year offering periods comprised of four six-month purchase periods. The Amended and Restated ESPP provides for a six-month offering period commencing with the March 1, 2008 purchase period. The purchase price of the stock is equal to 85% of the market price on the last day of the offering period. The approval of the Amended and Restated ESPP resulted in the cancellation of future purchases under current offering periods of the original ESPP and accelerated recognition of unamortized expense related to those future purchases. The Company recorded $4.1 million of stock-based compensation expense for the period from January 1, 2008 through February 29, 2008 related to the original ESPP, including $3.4 million related to the cancellation of future purchases, and $0.1 million of stock-based compensation expense for the period from March 1, 2008 through March 31, 2008 related to the Amended and Restated ESPP. Under the Company's Amended and Restated ESPP, because employees are entitled to purchase a variable number of shares for a fixed monetary amount, future awards are classified as share-based liabilities and recorded at fair value. The Company will reclassify these liabilities to Additional paid-in capital at the time of the share purchase, which is the date of the award.

During December 2006, in order to remedy the unfavorable personal tax consequences for those who had not exercised stock options after December 31, 2005 subject to 409A, the Company entered into agreements with its directors and executive officers who were subject to the disclosure requirements of Section 16 of the Securities Exchange Act of 1934 under which they agreed to waive cash payment or restricted stock from the Company for the difference in exercise price of certain stock options affected by the stock option review. This agreement resulted in additional stock-based compensation expense of $1.2 million in the three months ended March 31, 2007.

The Company could not issue any securities under its registration statements on Form S-8 until it became current in its SEC reporting obligations for filing its periodic reports under the Securities Exchange Act of 1934. During the first quarter of 2007, the Company extended the contractual terms of approximately 833,000 vested stock options held by former executives and other former employees. The Company accounted for the modifications to extend the contractual term of the awards for former executives and other former employees in accordance with SFAS 123R. Based on the guidance in SFAS 123R and related FASB Staff Positions, after the modification those stock options held by former executives and other former employees became subject to the provisions of EITF 00-19. As a result, certain of those stock option awards were reclassified as liability awards within current liabilities. Accordingly, at the end of each reporting period, the Company determined the fair value of those awards utilizing the Black-Scholes valuation model and recognized any change in fair value of those awards in its condensed consolidated statement of operations in the period of change until the awards were exercised, expired or were otherwise settled. As a result of these modifications, the Company

(11) STOCK-BASED COMPENSATION (Continued)

recorded additional stock-based compensation expense of $3.6 million in the three months ended March 31, 2007. The Company also recorded Other expense of $0.7 million in the three months ended March 31, 2007 as a result of changes in the fair value of the liability awards. All of the stock options related to these liability awards had either expired or were settled by December 31, 2007.

During the first quarter of 2007, as a result of the Company's inability to issue any securities under its registration statement on Form S-8, the Company extended the contractual terms of approximately 185,000 vested stock options held by current employees which were due to expire. The Company accounted for the modifications to extend the contractual term of the awards for current employees in accordance with SFAS 123R. As a result of the modification, the Company recorded additional stock-based compensation expense of $0.8 million in the three months ended March 31, 2007.

The Company was not able to issue shares under the original ESPP as scheduled on February 28, 2007, delaying the issuance of shares until after it became current in its SEC reporting obligations. The Company also delayed the commencement of the next scheduled ESPP purchase period from March 1, 2007 to April 1, 2007. The modifications to the original ESPP resulted in additional stock-based compensation expense of $1.2 million in the three months ended March 31, 2007.

The Company recorded $8.2 million and $8.9 million of stock-based compensation for the three months ended March 31, 2008 and 2007, respectively. The amount recorded in the three months ended March 31, 2008 includes $3.4 million of expense related to the cancellation of the original ESPP. These amounts are included as components of the following expense categories in the condensed consolidated statements of operations (in thousands):

	Three months ended March 31,	
	2008	2007
Product cost of revenue	$ 186	$ 90
Service cost of revenue	1,148	582
Research and development	3,689	3,209
Sales and marketing	1,893	3,522
General and administrative	1,292	1,466
	$ 8,208	$ 8,869

In addition, the Company included $0.2 million of stock-based compensation in inventory at both March 31, 2008 and December 31, 2007.

At March 31, 2008, there was $50.2 million of unrecognized compensation cost related to share-based awards, which is expected to be recognized over a weighted average period of approximately three years. The Company estimates that it will record $0.3 million of additional compensation cost related to the Amended and Restated ESPP through August 31, 2008, the purchase date for the current offering period.

(11) STOCK-BASED COMPENSATION (Continued)

Valuation Assumptions

The grant-date fair value of options to purchase common stock granted in the three months ended March 31, 2008 and 2007 was estimated using the Black-Scholes valuation model with the following assumptions:

	Three months ended March 31,	
	2008	2007
Risk-free interest rate	2.75%	4.64%
Expected dividend yield	—	—
Expected volatility	70.94%	57.50%
Weighted average volatility	70.94%	57.50%
Expected life (years)	4.5	4.5

Based on the above assumptions, the weighted average fair value of stock options granted during the three months ended March 31, 2008 and 2007 was $2.19 and $3.83, respectively.

The fair value of the rights to purchase shares of common stock under the original ESPP was estimated on the commencement date of the offering period using the Black-Scholes valuation model with the following assumptions:

	Three months ended March 31,	
	2008	2007
Risk-free interest rate	3.6%–5.1%	3.59%–5.10%
Expected dividend yield	—	—
Expected volatility	46%–79%	50.77%–79.12%
Expected life (years)	0.5–2.0	0.5–2.0

Under the Company's Amended and Restated ESPP, the employee participant is not considered to have received a grant until the date of the stock purchase. The stock-based compensation expense related to the Amended and Restated ESPP is equal to the discount from the market price of the entity's shares.

The risk-free interest rate used is the average U.S. Treasury Constant Maturities Rate for the expected term. The expected dividend yield of zero is based on the fact that the Company has never paid dividends and has no present intention to pay cash dividends. Expected volatility is based on a combination of historical and implied volatility; the Company believes that such a combination provides a more accurate estimate of the grant-date fair value because it is a more accurate indicator of the market's expectations regarding future volatility. The expected life for stock options is based on a combination of the Company's historical option patterns and exercise patterns within similar industries. The expected life for stock purchase rights under the original ESPP is based on the purchase periods defined within the original ESPP.

(11) STOCK-BASED COMPENSATION (Continued)

Stock Option and Restricted Stock Grant Activity

The activity related to the Company's outstanding stock options during the three months ended March 31, 2008 is as follows:

Stock Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2008	38,769,859	$ 5.35		
Granted	646,700	$ 3.80		
Exercised	(65,136)	$ 2.58		
Forfeited	(149,508)	$ 5.93		
Expired	(221,353)	$ 5.28		
Outstanding at March 31, 2008	38,980,562	$ 5.32	6.37	$ 1,092
Vested or expected to vest at March 31, 2008	37,311,547	$ 5.30	6.24	$ 1,087
Exercisable at March 31, 2008	26,476,284	$ 5.08	5.06	$ 1,056

The total intrinsic value of stock options exercised during the three months ended March 31, 2008 was $0.1 million. There were no stock options exercised during the three months ended March 31, 2007.

The activity related to the Company's nonvested restricted stock awards for the three months ended March 31, 2008 is as follows:

	Shares	Weighted Average Grant-date Fair Value
Nonvested balance at January 1, 2008	3,290,100	$ 5.86
Granted	—	—
Vested	(26,250)	$ 4.47
Forfeited	(32,600)	$ 5.64
Nonvested balance at March 31, 2008	3,231,250	$ 5.87

The Company recorded stock-based compensation expense totaling $1.5 million and $0.5 million related to restricted stock awards in the three months ended March 31, 2008 and 2007, respectively.

(12) EMPLOYEE DEFINED CONTRIBUTION PLAN

During the fourth quarter of fiscal 2007, the Company enhanced its 401(k) savings plan for employees by implementing a matching contribution of 50% of employee contributions, up to a maximum match of $3,000 per employee per year. In the first quarter of fiscal 2008, the Company's Board of Directors voted to increase the maximum match to $3,500 per employee effective January 1, 2008. The Company recorded expense related to its 401(k) savings plan of $0.6 million in the three months ended March 31, 2008.

(13) INCOME TAXES

The Company provides for income taxes during interim periods based on the estimated effective tax rate for the full fiscal year. The Company records cumulative adjustments to the tax provision in an interim period in which a change in the estimated annual effective rate is determined.

In June 2006, the FASB issued FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* ("FIN 48"), which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes* ("SFAS 109"). Sonus adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized an increase of approximately $0.1 million in the liability for unrecognized tax benefits, which was accounted for as an increase to the accumulated deficit. At March 31, 2008, the Company had $6.2 million of federal and state unrecognized tax benefits. To the extent these unrecognized tax benefits are ultimately recognized, they will impact the effective tax rate in a future period.

At March 31, 2008, the total amount of accrued interest and penalties was $91,000. The Company accounts for interest and penalties related to uncertain tax positions as part of its provision for federal and state income taxes.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, as well as various states and foreign jurisdictions. Generally, the tax years 2003 through 2006 remain open to examination by the major taxing jurisdictions to which the Company and its subsidiaries are subject. The Company's federal net operating losses generated prior to 2003 could be adjusted on examination even though the year in which the loss was generated is otherwise closed by the statute of limitations. In 2006, the Massachusetts Department of Revenue ("Mass. DOR") commenced an examination of the Company's Massachusetts state income tax returns for 2002 and 2003. Sonus has extended the statute of limitations for the 2002 tax year to allow for additional time to complete this audit. As of March 31, 2008, the Mass. DOR had not proposed any significant adjustments to the Company's tax positions.

(14) MAJOR CUSTOMERS

One customer contributed 35% and 43% of Sonus' revenue in the three months ended March 31, 2008 and 2007, respectively. No other customer contributed 10% or more of the Company's revenue in either period.

At March 31, 2008 and December 31, 2007, one customer and two customers, respectively, each accounted for at least 10% of the Company's accounts receivable balance, representing totals of approximately 38% and 28%, respectively, of Sonus' accounts receivable balances. The Company performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable. Sonus maintains an allowance for doubtful accounts and such losses have been within management's expectations.

(15) GEOGRAPHIC AND OPERATING SEGMENT INFORMATION

The Company's classification of revenue by geographic area is determined by the location of the Company's customers. The following table summarizes revenue by geographic area as a percentage of total revenue:

	Three months ended March 31,	
	2008	2007
United States	83%	83%
Japan	4	7
Other Asia Pacific	1	*
Europe, Middle East and Africa	11	6
Other	1	4
	100%	100%

* Represents less than 1% of revenue.

(16) SETTLEMENT OF 2004 RESTATEMENT LITIGATION

On November 7, 2007, Sonus reached an agreement to settle litigation against the Company and certain of its former and current officers alleging violations of federal securities laws in connection with the 2004 Restatement Litigation (see Note 17). Pursuant to the settlement, the Company agreed to pay $40.0 million to the shareholder classes in the case. On March 31, 2008, the United States District Court for the District of Massachusetts approved the settlement.

At December 31, 2007, Sonus had $25.0 million of restricted cash in escrow related to the settlement. This amount is reported as Litigation settlement escrow in the condensed consolidated balance sheet at December 31, 2007. In January 2008, the Company's insurer placed an additional $15.0 million into the escrow account and remitted the remaining $328,000 available under the insurance policy directly to the Company. The total of $15.3 million was reported as Insurance receivable—litigation settlement in the Company's condensed consolidated balance sheet at December 31, 2007.

The total of $40.0 million in funds that had been placed into the escrow account, plus interest earned since the funds were deposited, have been released to the plaintiffs effective March 31, 2008.

(17) CONTINGENCIES

2001 IPO Litigation

In November 2001, a purchaser of the Company's common stock filed a complaint in the United States District Court for the Southern District of New York against Sonus, two of its officers and the lead underwriters alleging violations of the federal securities laws in connection with Sonus' initial public offering ("IPO") and seeking unspecified monetary damages. The purchaser seeks to represent a class of persons who purchased the Company's common stock between the IPO on May 24, 2000 and December 6, 2000. An amended complaint was filed in April 2002. The amended complaint alleges that the Company's registration statement contained false or misleading information or omitted to state

(17) CONTINGENCIES (Continued)

material facts concerning the alleged receipt of undisclosed compensation by the underwriters and the existence of undisclosed arrangements between the underwriters and certain purchasers to make additional purchases in the after market. The claims against Sonus are asserted under Section 10(b) of the Exchange Act and Section 11 of the Securities Act of 1933 (the "Securities Act") and against the individual defendants under Sections 11 and 15 of the Securities Act and Sections 10(b) and 20(a) of the Exchange Act. Other plaintiffs have filed substantially similar class action cases against approximately 300 other publicly traded companies and their IPO underwriters which, along with the actions against Sonus, have been transferred to a single federal judge for purposes of coordinated case management. On July 15, 2002, Sonus, together with the other issuers named as defendants in these coordinated proceedings, filed a collective motion to dismiss the consolidated amended complaints on various legal grounds common to all or most of the issuer defendants. The plaintiffs voluntarily dismissed the claims against many of the individual defendants, including Sonus' officers named in the complaint. On February 19, 2003, the court granted a portion of the motion to dismiss by dismissing the Section 10(b) claims against certain defendants including Sonus, but denied the remainder of the motion as to the defendants. In June 2003, a special committee of the Company's Board of Directors authorized Sonus to enter into a proposed settlement with the plaintiffs on terms substantially consistent with the terms of a Memorandum of Understanding negotiated among representatives of the plaintiffs, the issuer defendants and the insurers for the issuer defendants. In October 2004, the court certified the class in a case against certain defendants. On February 15, 2005, the court preliminarily approved the terms of the proposed settlement contingent on modifications to the proposed settlement. On August 31, 2005, the court approved the terms of the proposed settlement, as modified. On April 24, 2006, the court held a hearing on a motion to approve the final settlement and took the matter under advisement. On December 5, 2006, the Court of Appeals for the Second Circuit reversed the court's October 2004 order certifying a class. On June 25, 2007, the Court entered an order terminating the settlement. Accordingly, the Company is unable to determine the ultimate outcome or potential range of loss, if any.

On October 5, 2007, Vanessa Simmonds, a purported shareholder, filed a complaint in the Western District of Washington for recovery of short-swing profits under Section 16(b) of the Exchange Act against the underwriters in the IPO in 2000. On February 28, 2008, the plaintiff filed an amended complaint asserting substantially similar claims as set forth in the initial complaint. The amended complaint seeks recovery against the underwriters for profits they received from the sale of Sonus common stock in connection with the IPO. The Company was named as a nominal defendant but has no liability for the asserted claims. No Sonus officers or directors were named in the amended complaint. Sonus does not expect that this claim will have a material impact on its financial statements.

2002 Securities Litigation

Beginning in July 2002, several purchasers of the Company's common stock filed complaints in the United States District Court for the District of Massachusetts against Sonus, certain officers and directors and a former officer under Sections 10(b) and 20(a) and Rule 10b-5 of the Exchange Act (the "Class Action Complaints"). The purchasers seek to represent a class of persons who purchased the Company's common stock between December 11, 2000 and January 16, 2002, and seek unspecified monetary damages. The Class Action Complaints were essentially identical and alleged that Sonus made false and misleading statements about its products and business. On March 3, 2003, the plaintiffs

(17) CONTINGENCIES (Continued)

filed a Consolidated Amended Complaint. On April 22, 2003, the Company filed a motion to dismiss the Consolidated Amended Complaint on various grounds. On May 11, 2004, the court held oral argument on the motion, at the conclusion of which the court denied Sonus' motion to dismiss. The plaintiffs filed a motion for class certification on July 30, 2004. On February 16, 2005, the court certified the class and appointed a class representative. On March 9, 2005, the court appointed the law firm of Moulton & Gans as lead counsel. After the court requested additional briefing on the adequacy of the class representative, the class representative withdrew. Lead counsel then filed a motion to substitute a new plaintiff as the class representative. On May 19, 2005, the court held a hearing on the motion and took the matter under advisement. On August 15, 2005, the court issued an order decertifying the class and requiring the parties to submit a joint report informing the court whether the cases have been settled and whether defendants would be seeking to recover attorney's fees from the plaintiffs. On September 30, 2005, the plaintiffs filed motions to voluntarily dismiss their complaints with prejudice. On October 5, 2005, the court entered an order dismissing the cases. On June 26, 2006, the court issued an order denying Sonus' motion for recovery of attorneys' fees.

On January 6, 2006, a purchaser of the Company's common stock filed a complaint in the United States District Court for the District of Massachusetts that is essentially identical to the Consolidated Amended Complaint previously filed against the defendants. The Court has appointed the Public Employees' Retirement System of Mississippi as lead plaintiff. The lead plaintiff has filed an Amended Consolidated Complaint. On April 19, 2007, the defendants filed a motion to dismiss the Amended Consolidated Complaint. There is no assurance Sonus will prevail in such a motion or defending this action. A judgment or a settlement of the claims against the defendants could have a material impact on the Company's financial results. It is too early to determine the ultimate outcome or potential range of loss, if any. The Company does not have any directors and officers insurance available for this claim.

2004 Restatement Litigation

Beginning in February 2004, a number of purported shareholder class action complaints were filed in the United States District Court for the District of Massachusetts against Sonus and certain of its current officers and directors. On June 28, 2004, the court consolidated the claims. On December 1, 2004, the lead plaintiff filed a consolidated amended complaint. The complaint asserts claims under the federal securities laws, specifically Sections 10(b) and 20(a) of the Exchange Act and Sections 11, 12(a), and 15 of the Securities Act, relating to the restatement of Sonus' financial results for 2001, 2002, and the first three quarters of 2003. Specifically, the complaint alleges that Sonus issued a series of false or misleading statements to the market concerning its revenues, earnings and financial condition. Plaintiffs contend that such statements caused the Company's stock price to be artificially inflated. The complaint seeks unspecified damages on behalf of a purported class of purchasers of the Company's common stock during the period from March 28, 2002 through March 26, 2004. On January 28, 2005, Sonus filed a motion to dismiss the Section 10(b) and 12(a) claims and joined the motion to dismiss the Section 11 claim filed by the individual defendants. On June 1, 2005, the court held a hearing on the motion and allowed the plaintiff to file an amended complaint. The plaintiff filed an amended complaint that included the same claims and substantially similar allegations as set forth in the initial complaint. On September 12, 2005, the defendants filed motions to dismiss this amended complaint. On December 10, 2005, the court held a hearing on the motions and took the matter under advisement. On May 10, 2006, the court issued an order granting the defendants' motions in part and

(17) CONTINGENCIES (Continued)

denying the motions in part. The court dismissed the Section 12(a)(2) claims against all the defendants and the Section 10(b) and Section 11 claims against the individual defendants. The court denied the motions as to the Section 10(b) and Section 11 claims against Sonus and Section 15 claims against the individual defendants. On September 25, 2007, the Court granted the plaintiff's motion for class certification. As discussed in Note 16, on November 7, 2007, the Company and the plaintiff agreed to settle the litigation for $40 million. On March 31, 2008, the court approved the settlement.

Patent Litigation

On June 14, 2006, C2 Communications sued AT&T, Inc., Verizon Communications, Inc., Qwest, Bellsouth Corporation, Sprint Nextel Corporation, Global Crossing and Level 3 in the Eastern District of Texas, Marshall Division. C2 Communications has alleged that each of the defendants infringe U.S. Patent No. 6,243,373 entitled "Method and Apparatus for Implementing a Computer Network Internet Telephone System." Sonus has agreed, subject to certain conditions, to assume the defense of Qwest, Global Crossing and Level 3 in this litigation to the extent the claim results from their use of products purchased from Sonus. There can be no assurance that other defendants who have purchased Sonus products will not seek indemnification from Sonus. The court has scheduled the trial date for September 2008. Court-ordered mediation has been scheduled for May 29, 2008. Sonus believes that the defendants have substantial legal and factual defenses to the infringement claim, which the Company intends to pursue vigorously on behalf of the defendants for whom Sonus agrees or is required to assume defense of the litigation. However, there is no assurance any of the defendants will prevail in defending this action. There also can be no assurance that Sonus will not be required to indemnify any of the defendants from any judgment of infringement rendered against them. Sonus may be required to devote significant time and resources in connection with assuming the defense of the claim of infringement on behalf of the defendants for whom Sonus has agreed to assume defense of the litigation. An adverse outcome with respect to the claim and Sonus' indemnification could have a material adverse impact on Sonus' business, operating results and financial condition. Sonus cannot predict the ultimate outcome of this litigation or any potential impact on the Company's operating results or financial position. Sonus has incurred and expects to continue to incur significant legal and expert fees in connection with this litigation.

On January 24, 2008, Sprint Communications sued two of the Company's customers, Broadvox and Nuvox, in the District of Kansas for patent infringement. By letter dated April 23, 2008, Broadvox requested that the Company assume the defense of the case on its behalf. The Company has agreed, subject to certain conditions, to assume the defense in this litigation on behalf of Broadvox to the extent the claims result from its use of Sonus products. There can be no assurance that the Company will not be required to indemnify Broadvox or Nuvox from any judgment of infringement rendered against them. Sonus cannot predict the ultimate outcome of this litigation or any potential impact on the Company's operating results or financial position.

Sonus includes standard intellectual property indemnification provisions in its product agreements in the ordinary course of business. Pursuant to its product agreements, Sonus will indemnify, hold harmless, and reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally business partners or customers, in connection with certain patent, copyright or other intellectual property infringement claims by third parties with respect to Sonus products. Other

(17) CONTINGENCIES (Continued)

agreements with Sonus' customers provide indemnification for claims relating to property damage or personal injury resulting from the performance of services by Sonus or its subcontractors. Historically, Sonus' costs to defend lawsuits or settle claims relating to such indemnity agreements have been insignificant. Accordingly, the estimated fair value of these indemnification provisions is immaterial.

2006 Stock Option Accounting Litigation

On November 14, 2006, a purported shareholder derivative lawsuit was filed in the United States District Court for the District of Massachusetts against Sonus and certain of its officers and directors, naming Sonus as a nominal defendant. Other purported shareholders filed virtually identical complaints. The suits claim that certain of Sonus' officers and directors breached their fiduciary duties to its stockholders and to Sonus in connection with its announced stock option review. The complaints are derivative in nature and do not seek relief from Sonus. However, Sonus has entered into indemnification agreements in the ordinary course of business with certain of the defendant officers and directors and may be obligated throughout the pendency of these actions to advance payment of legal fees and costs incurred by the defendants pursuant to the Company's obligations under the indemnification agreements or applicable Delaware law. By order dated December 18, 2006, the Court consolidated the actions. The plaintiffs have filed a consolidated complaint. The defendants filed on March 19, 2007 a motion to dismiss the consolidated complaint. The Court held a hearing on July 11, 2007, and took the motion under advisement. On January 25, 2008, the Court issued an order granting the motion to dismiss. The Company cannot predict whether the plaintiff will appeal that order. On February 15, 2008, one of the plaintiffs in this case sent the company a shareholder demand letter, seeking the same relief sought in the derivative litigation that the Court dismissed. On March 25, 2008, the Company's Board of Directors rejected the demands set forth in the demand letter. The Company does not expect that the resolution of this claim will have a material impact on its financial statements.

On January 19, 2007, a purported shareholder derivative lawsuit was filed in the Superior Court Department of Middlesex County of Massachusetts against certain of Sonus' directors and officers, also naming Sonus as a nominal defendant. Another purported shareholder filed a virtually identical complaint. The suits assert similar claims and seek relief similar to the derivative suits filed in federal court. On May 7, 2007, the plaintiffs filed a consolidated complaint. On June 6, 2007, the defendants moved to dismiss the consolidated complaint. The Court held a hearing on the motion on August 14, 2007 and took the matter under advisement. On November 12, 2007, the plaintiffs filed a motion to voluntarily dismiss the complaint without prejudice so plaintiffs could pursue an action in the Delaware Chancery Court to enforce their rights to inspect Sonus' books and records under Section 220 of the Delaware Code. The defendants opposed the motion. On December 7, 2007, the Court granted the motion to voluntarily dismiss the complaint without prejudice subject to plaintiffs' paying the defendants' reasonable legal fees within 30 days of the Court's order. The Court further ruled that the case would be dismissed with prejudice if the plaintiff did not pay the defendants' legal fees within 30 days. Accordingly, on January 8, 2008, the defendants requested entry of judgment for dismissal with prejudice. The plaintiffs have opposed the request. On January 16, 2008, the Court issued an order allowing the request and dismissing the case with prejudice. On February 5, 2008, the plaintiff filed a notice of appeal of that order. The plaintiff subsequently notified the Company of its intent to dismiss the appeal and, on April 23, 2008, the appeals court dismissed the appeal with prejudice.

(17) CONTINGENCIES (Continued)

As announced on March 19, 2007, the SEC is conducting a formal private investigation into Sonus' historical stock option granting practices. If the Company is subject to adverse findings, it could be required to pay damages or penalties or have other remedies imposed, including criminal penalties, which could adversely impact Sonus' business, financial position or results of operations. At this time, the Company is unable to determine the ultimate outcome of the investigation.

IRS Employment Tax Audit

The Internal Revenue Service ("IRS") notified the Company that its payroll tax returns for the years ended December 31, 2004, 2005 and 2006 had been selected for audit in connection with its stock option review. In connection with the restatement of its financial statements, Sonus had recorded approximately $1.6 million of accrued liabilities for additional federal and state payroll tax, penalties and interest related to adjustments resulting from errors in stock option accounting. In April 2008, the Company reached an agreement with the IRS and paid $496,000 to settle this audit. As a result of this settlement, the Company reduced its liability estimate by $0.9 million at March 31, 2008.

Employment Litigation

On February 19, 2008, James Collier, Sonus' former Vice President of Sales, filed a complaint against the Company in federal district court in the District of New Jersey. The complaint alleges that the Company breached Mr. Collier's employment agreement by failing to pay severance in the amount of $600,000 and provide benefits claimed to be owed under the employment agreement. The Company believes that Mr. Collier was properly terminated for cause and therefore is not owed any severance or other benefits under the employment agreement. On March 17, 2008, the Company filed its answer denying Mr. Collier's claims. The Company intends to defend the case vigorously. The Company may incur significant legal fees in defending this claim and there is no assurance as to the ultimate outcome of the litigation.

(18) SUBSEQUENT EVENT

On April 18, 2008, the Company completed the acquisition of Atreus Systems, Inc. ("Atreus"), a privately-held company with its principal office located in Ottawa, Canada. Atreus is a leading supplier of service provisioning software for Voice over IP ("VoIP") and IP Multimedia Subsystem ("IMS")-based services. In consideration, the Company paid the selling stockholders $4.8 million and incurred $0.1 million of transaction reimbursement costs. The Company believes that the addition of Atreus solutions to the Sonus Access portfolio will allow Sonus to provide comprehensive integration services for operators' growing IP-service portfolios. The financial results of Atreus will be included in the Company's condensed consolidated financial statements for the periods subsequent to the date of acquisition.

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements, which are subject to a number of risks and uncertainties. These forward-looking statements are based on our current expectations, assumptions, estimates and projections about our industry and ourselves, and we do not undertake an obligation to update our forward-looking statements to reflect future events or circumstances. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including the factors set forth in Item 1A. "Risk Factors" in this Quarterly Report on Form 10-Q. This discussion should be read in conjunction with the unaudited condensed consolidated financial statements and related notes for the periods specified. Further reference should be made to our Annual Report on Form 10-K for the year ended December 31, 2007.

Overview

We are a leading provider of voice infrastructure solutions for wireline and wireless service providers. Our products are a new generation of carrier-class infrastructure equipment and software that enables voice services to be delivered over Internet Protocol ("IP") packet-based networks. Our target customers include both traditional and emerging communications service providers, including long distance carriers, local exchange carriers, Internet service providers, wireless operators, cable operators, international telephone companies and carriers that provide services to other carriers. IP packet-based networks, which transport traffic in small bundles, or "packets," offer a significantly more flexible, cost-effective and efficient means for providing communications services than existing circuit-based networks, designed years ago to primarily deliver telephone calls.

Our suite of voice infrastructure solutions allows wireline and wireless operators to build converged voice over IP ("VoIP") networks. Our products are built on the same distributed, IP-based principles embraced by the IP Multimedia Subsystem ("IMS") architecture, as defined by the Third Generation Partnership Program ("3GPP"). This IMS architecture is being accepted by network operators globally as the common approach for building converged voice, data, wireline and wireless networks. The IMS architecture is based primarily on IP packets and the SIP protocol, which has been the foundation of our products since our formation.

We sell our products primarily through a direct sales force and, in some markets, through or with the assistance of resellers and distributors. Customers' decisions to purchase our products to deploy in commercial networks involve a significant commitment of resources and a lengthy evaluation, testing and product qualification process. Our revenue and results of operations may vary significantly and unexpectedly from quarter to quarter as a result of long sales cycles, our expectation that customers will tend to sporadically place large orders with short lead times and the application of complex revenue recognition rules to certain transactions, which may result in customer shipments and orders from multiple quarters being recognized as revenue in one quarter. We expect to recognize revenues from a limited number of customers for the foreseeable future.

We continue to focus on the key elements of our strategy, designed to capitalize on our technology and market lead and build a premier franchise in packet-based voice infrastructure solutions. We are currently focusing our major efforts in the following aspects of our business:

- winning new business from key service providers;
- adding new products to our portfolio;
- expanding our global sales and support capabilities; and
- opening new channels and markets for our products.

Acquisition of Zynetix Limited

In connection with the acquisition of Zynetix Limited ("Zynetix"), completed on April 13, 2007, the share purchase agreement, as amended, also includes two additional potential payments to the selling shareholders: (1) £1,500,000 payable on December 31, 2008 (U.S. $3.0 million at March 31, 2008); and (2) 175,000 shares of our common stock deliverable on April 30, 2009, both contingent upon the business achieving certain predetermined financial and business metrics related to revenue, operating expenses and customer trials. The operating results of Zynetix have been included in our condensed consolidated financial statements for the period subsequent to its acquisition.

Stock-Based Compensation

We recorded $8.2 million and $8.9 million of stock-based compensation in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2008 and 2007, respectively. These amounts are included in the following expense categories (in thousands):

	Three months ended March 31,	
	2008	2007
Product cost of revenue	$ 186	$ 90
Service cost of revenue	1,148	582
Research and development	3,689	3,209
Sales and marketing	1,893	3,522
General and administrative	1,292	1,466
	$ 8,208	$ 8,869

In addition, we included $0.2 million of stock-based compensation in inventory at March 31, 2008 and December 31, 2007.

On January 25, 2008, our Board of Directors approved the Amended and Restated Employee Stock Purchase Plan ("ESPP"). Effective March 1, 2008, the Amended and Restated ESPP eliminates the original ESPP's two year offering periods comprised of four six-month purchase periods. The Amended and Restated ESPP provides for a six-month offering period commencing with the March 1, 2008 purchase period. The purchase price of the stock is equal to 85% of the market price on the last day of the offering period. The Amended and Restated ESPP resulted in the cancellation of future purchases under current offering periods of the original ESPP and accelerated recognition of unamortized expense related to those future purchases. We recorded $4.1 million of stock-based compensation expense for the period from January 1, 2008 through February 29, 2008 related to the original ESPP, including $3.4 million related to the cancellation of future purchases, and $0.1 million of stock-based compensation expense for the period from March 1, 2008 through March 31, 2008 related to the Amended and Restated ESPP.

During December 2006, in order to remedy the unfavorable personal tax consequences for those who had not exercised stock options after December 31, 2005 subject to Section 409A, we entered into agreements with our directors and executive officers who were subject to the disclosure requirements of Section 16 of the Securities Exchange Act of 1934 under which they agreed to waive cash payment or restricted stock from us for the difference in exercise price of certain stock options affected by the stock option review. This agreement resulted in additional stock-based compensation expense of $1.2 million in the three months ended March 31, 2007.

We could not issue any securities under our registration statement on Form S-8 until we became current in our SEC reporting obligations for filing our periodic reports under the Exchange Act. Consequently, during the first quarter of 2007, we extended the contractual terms of approximately

833,000 vested stock options held by former executives and other former employees. We accounted for the modifications to extend the contractual term of the awards for former employees in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123(R), *Share-based Payment* ("SFAS 123R"). Based on the guidance in SFAS 123R and related Financial Accounting Standards Board ("FASB") Staff Positions, after the modification those stock options held by former employees became subject to the provisions of Emerging Issues Task Force ("EITF") Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*. As a result, certain of those stock option awards were reclassified as liability awards within current liabilities. Accordingly, at the end of each reporting period, we determined the fair value of those awards utilizing the Black-Scholes valuation model and recognized any change in fair value in our Condensed Consolidated Statement of Operations in the period of change until the awards were exercised, expired or were otherwise settled. As a result of these modifications, we recorded additional stock-based compensation expense of $3.6 million in the three months ended March 31, 2007. We also recorded Other expense of $0.7 million in the three months ended March 31, 2007 as a result of changes in the fair value of the liability awards. All of the stock options related to these liability awards had either expired or were settled by December 31, 2007.

During the first quarter of 2007, as a result of our inability to issue any securities under our registration statement on Form S-8, we extended the contractual terms of approximately 185,000 vested stock options held by current employees which were due to expire. We accounted for the modifications to extend the contractual term of the awards for current employees in accordance with SFAS 123R, and recorded additional stock-based compensation expense of $0.8 million in the three months ended March 31, 2007.

We were unable to issue shares under our ESPP as scheduled on February 28, 2007, delaying the issuance of shares until after we became current in our SEC reporting obligations. We also delayed the commencement of the next scheduled ESPP period from March 1, 2007 to April 1, 2007. The modifications to the ESPP resulted in additional stock-based compensation expense of $1.2 million in the three months ended March 31, 2007.

Fair Value of Financial Instruments

We adopted SFAS 157 as of January 1, 2008 for financial assets and financial liabilities. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). SFAS 157 outlines a valuation framework and creates a fair value hierarchy using the following three levels:

Level 1—Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the company has the ability to access at the measurement date.

Level 2—Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.) and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3—Unobservable inputs that reflect the company's assumptions about the assumptions that market participants would use in pricing the asset or liability. The company develops these inputs based on the best information available, including its own data.

We disclosed the fair value of our financial instruments that are required to be remeasured at March 31, 2008 in a table in Note 10 to our condensed consolidated financial statements. Our available-for-sale equity securities are marked to market at each measurement date, based on quoted sales prices on the stock exchange on which the shares are traded.

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates and judgments on historical experience, knowledge of current conditions and beliefs of what could occur in the future given available information. We consider the following accounting policies to be both those most important to the portrayal of our financial condition and those that require the most subjective judgment. If actual results differ significantly from management's estimates and projections, there could be a material effect on our financial statements. The significant accounting policies that we believe are the most critical include the following:

- Revenue recognition;
- Deferred revenue;
- Allowance for doubtful accounts;
- Inventory reserves;
- Warranty, royalty, litigation and other loss contingency reserves;
- Stock-based compensation;
- Acquisitions;
- Goodwill and purchased intangible assets; and
- Accounting for income taxes.

For a complete discussion of our critical accounting policies and estimates, refer to our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which was filed with the SEC on March 6, 2008. There were no significant changes to the Company's critical accounting policies during the three months ended March 31, 2008.

Results of Operations

Three Months Ended March 31, 2008 and 2007

Revenue. Revenue for the three months ended March 31, 2008 and 2007 was as follows (in thousands):

	Three months ended March 31,	
	2008	**2007**
Product	$ 50,984	$ 51,627
Service	23,039	19,519
Total revenue	$ 74,023	$ 71,146

Product revenue is comprised of sales of our voice infrastructure products, including our GSX9000™ and GSX4000™ Open Services Switches, NBS Network Border Switch, PSX Call Routing Server, SGX Signaling Gateway, ASX Feature Server, the Sonus Insight™ Management System and related product offerings. Product revenue for the three months ended March 31, 2008 decreased $0.6 million, or 1.2%, compared to the same period in the prior year.

Service revenue is primarily comprised of hardware and software maintenance and support, network design, installation and other professional services. Service revenue increased 18.0% in the three months ended March 31, 2008, compared to the same prior year period. The increase in the current period is primarily attributable to higher maintenance revenue related to our growing installed base, as well as the timing of cash collections from a customer for whom revenue is recognized as cash is collected.

AT&T contributed more than 10% of our revenue in both the three months ended March 31, 2008 and 2007. There were no other customers that contributed more than 10% of our revenue in either period.

International revenue was approximately 17% of revenue for both three month periods ended March 31, 2008 and 2007. We expect that international revenue will fluctuate as a percentage of revenue from quarter to quarter.

Our deferred product revenue was $47.3 million and $44.1 million at March 31, 2008 and December 31, 2007, respectively. Our deferred service revenue was $60.6 million and $55.1 million at March 31, 2008 and December 31, 2007, respectively. Our deferred revenue balance may fluctuate as a result of the timing of revenue recognition, customer payments, maintenance contract renewals, contractual billing rights, customer creditworthiness and maintenance revenue deferrals included in multiple element arrangements.

Cost of Revenue/Gross Profit. Our cost of revenue consists primarily of amounts paid to third-party manufacturers for purchased materials and services, royalties, manufacturing and professional services personnel and related costs and inventory obsolescence.

Our cost of revenue and gross profit as a percentage of revenue for the three months ended March 31, 2008 and 2007 were as follows (in thousands, except percentages):

	Three months ended March 31, 2008	Three months ended March 31, 2007
Cost of revenue		
Product	$ 16,820	$ 17,082
Service	11,075	8,579
Total cost of revenue	$ 27,895	$ 25,661
Gross profit margin (% of respective revenue)		
Product	67.0%	66.9%
Service	51.9%	56.0%
Total gross profit margin	62.3%	63.9%

The slight increase in product gross profit as a percentage of revenue ("product gross margin") was primarily due to product mix. The decrease in service gross profit as a percentage of service revenue ("service gross margin") was primarily due to increased personnel costs to support our global expansion efforts, as well as higher stock-based compensation costs of $0.6 million in the three months ended March 31, 2008. Our service cost of revenue is relatively fixed in advance of any particular quarter and therefore, changes in service revenue will have a significant impact on service gross margins. We believe that our gross margin over time will remain in our long-term financial model of 58% to 62%.

Research and Development Expenses. Research and development expenses consist primarily of salaries and related personnel expenses and prototype costs related to the design, development, testing and enhancement of our products. Research and development expenses were $20.5 million for the three months ended March 31, 2008, an increase of $1.8 million, or 9.6%, from $18.7 million in the same prior year period. The current year increase primarily reflects a $1.3 million increase in salary and related expenses associated with increased headcount and stock-based compensation, as well as $0.4 million of increased consulting costs. Some aspects of our research and development efforts require significant short-term expenditures, the timing of which can cause significant variability in our expenses. We believe that rapid technological innovation is critical to our long-term success, and we are tailoring our investments to meet the requirements of our customers and market.

Sales and Marketing Expenses. Sales and marketing expenses consist primarily of salaries and related personnel costs, commissions, travel and entertainment expenses, promotions, customer evaluation inventory and other marketing and sales support expenses. Sales and marketing expenses were $18.9 million for the three months ended March 31, 2008, a decrease of $4.1 million, or 17.8%, compared to $23.0 million in the three months ended March 31, 2007. The current period decrease is primarily attributable to lower commission and stock-based compensation expense, coupled with a decrease in evaluation equipment costs. In the three months ended March 31, 2007, commission expense included certain orders received in fiscal 2006 that were recognized in 2007 at an accelerated commission rate. Lower stock-based compensation costs accounted for $1.6 million of the decrease in sales and marketing expenses in the three months ended March 31, 2008, compared to the same prior year period.

General and Administrative Expenses. General and administrative expenses consist primarily of salaries and related personnel costs for executive and administrative personnel, recruiting expenses, allowance for doubtful accounts and professional fees. General and administrative expenses were $10.0 million for the three months ended March 31, 2008, a decrease of $4.1 million, or 28.9%, compared to $14.1 million in the three months ended March 31, 2007. The decrease in the current year period is primarily attributable to the recognition of $4.2 million of stock option review costs in the three months ended March 31, 2007. Lower stock-based compensation expense accounted for $0.2 million of the decrease in general and administrative expenses in the three months ended March 31, 2008, compared to the same prior year period. These amounts were partially offset by a $0.4 million increase in legal costs associated with litigation in the three months ended March 31, 2008, compared to the prior year quarter.

Interest Income, net. Interest income, net of interest expense, was $3.9 million in the three months ended March 31, 2008, compared to $4.6 million in the three months ended March 31, 2007. Interest income consists of interest earned on our cash equivalents, marketable securities and long-term investments. Interest expense in the current year primarily relates to interest on capital lease obligations. The reduction in interest income, net, in the current year period is primarily the result of lower interest rates.

Other Income (Expense), net. We recorded $0.4 million of other income in the three months ended March 31, 2008 as a change in estimate to our loss contingency related to the settlement of an employment tax audit by the Internal Revenue Service ("IRS"). We recorded $0.7 million of other expense in the three months ended March 31, 2007, to reflect the change in fair value of stock options modified subsequent to the departure of the former employees who are the optionees affected.

Income Taxes. We provide for income taxes during interim periods based on the estimated effective tax rate for the full fiscal year, and record a cumulative adjustment to the tax provision in an interim period in which a change in the estimated annual effective tax rate is determined. Our effective tax rate, including discrete items, was 44.5% and 37.7%, for the three months ended March 31, 2008 and 2007, respectively. The increase in our effective tax rate for the three months ended March 31, 2008 over the statutory federal and state rates is primarily attributable to permanent nondeductible stock-based compensation expense. In addition, our effective tax rate for the first quarter of 2008 does not include any benefit related to the federal research and development tax credit, as this tax law expired at the end of 2007.

The income tax provision of $0.5 million in the three months ended March 31, 2008 primarily reflects a current provision for federal, state and foreign taxes. The income tax benefit of $2.4 million in the three months ended March 31, 2007 primarily reflects a current benefit for federal, state and foreign taxes.

Off-balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Liquidity and Capital Resources

At March 31, 2008, our cash, cash equivalents, marketable securities and long-term investments totaled $407.6 million.

Our operating activities used $10.5 million of cash in the three months ended March 31, 2008, compared to $7.0 million provided by operating activities in the same prior year period. Net income and adjustments for non-cash items including stock-based compensation, depreciation and amortization of property and equipment and purchased intangible assets and deferred income taxes provided $12.5 million of cash. These non-cash adjustments were further benefited from decreases in accounts receivable and other operating assets, as well as an increase in deferred revenue. These amounts were offset by the release of the $25.0 million in Litigation settlement escrow to the plaintiffs, as well as lower levels of accrued expenses, deferred rent and accrued restructuring expenses, and accounts payable, as well as an increase in inventory. The lower accounts receivable levels are the result of our focused efforts on cash collections in the first quarter of 2008. On March 31, 2008, our proposed litigation settlement was approved by the court. Accordingly, the amounts that had been placed into escrow by us and our insurer were released to the plaintiff, and we eliminated the related liability and insurance receivable included in our condensed consolidated balance sheet at December 31, 2007. As a result, our cash flows from operating activities were negatively affected by the release at March 31, 2008 of the $25.0 million we had previously placed into an escrow account. The decrease in accrued expenses, deferred rent and accrued restructuring expenses is primarily attributable to lower employee compensation and related costs, including reductions for the payment of bonuses to our executives and employees under our bonus programs, the completion of an employee stock purchase under our original ESPP, lower ESPP withholdings under the Amended and Restated ESPP and accrued royalties.

Cash provided by operating activities in the three months ended March 31, 2007 came from non-cash adjustments to our net loss for stock-based compensation, deferred income taxes, depreciation and amortization of property and equipment and the increase in the fair value of modified stock options held by former employees. These non-cash adjustments were further benefited from decreases in accounts receivable and other operating assets, as well as higher accounts payable. These amounts were partially offset by decreases in accrued expenses, deferred rent and accrued restructuring expenses and deferred revenue, coupled with higher inventory levels.

Our investing activities provided $68.4 million of cash in the three months ended March 31, 2008, primarily comprised of $45.1 million of net maturities of marketable securities and long-term investments and $25.0 million related to the release at March 31, 2008 of the $25.0 million in the litigation settlement escrow account as a result of the court's approval of the settlement agreement and the release of those funds to the plaintiffs. These amounts were partially offset by $1.7 million of investments in property and equipment. Our investing activities provided $2.3 million of cash in the three months ended March 31, 2007, primarily comprised of $4.0 million of net maturities of marketable securities and long-term investments, partially offset by $1.7 million of investments in property and equipment.

Our financing activities provided $2.4 million of cash in the three months ended March 31, 2008, including $2.2 million of proceeds from the sale of common stock in connection with our ESPP and $0.3 million of proceeds from the exercise of stock options. These proceeds were partially offset by $61,000 used for payments on our capital leases for office equipment and $37,000 used to pay withholding obligations related to the net share settlement of restricted stock awards upon vesting. Our financing activities used $230,000 of cash in the three months ended March 31, 2007, of which $189,000 was used to pay withholding obligations related to the net share settlement in December 2006 of a restricted stock award and $41,000 was used to pay long-term liabilities related to capital leases for office equipment. Due to the stock option review and related restatement in the first half of 2007, we were unable to issue shares of our common stock through either the ESPP or to allow any exercises of outstanding options to purchase our common stock during the quarter.

Based on our current expectations, we believe our cash, cash equivalents, marketable debt securities and long-term investments will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least 12 months, including consideration and transaction costs aggregating $4.9 million in connection with our April 18, 2008 acquisition of Atreus Systems, Inc. It is difficult to predict future liquidity requirements with certainty, and the rate at which we will consume cash will be dependent on the cash needs of future operations, including changes in working capital, which will, in turn, be directly affected by the levels of demand for our products, the timing and rate of expansion of our business, the resources we devote to developing our products and any litigation settlements. We anticipate devoting substantial capital resources to continue our research and development efforts, to maintain our sales, support and marketing operations, to improve our internal control environment and for other general corporate activities, as well as to vigorously defend against existing and potential litigation. See Note 17 to our condensed consolidated financial statements.

Recent Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161, *Disclosures About Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133* ("SFAS 161"). SFAS 161 amends and expands the disclosure requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 also amends SFAS No. 107, *Disclosures About Fair Value of Financial Instruments* ("SFAS 107"), to clarify that derivative instruments are subject to SFAS 107's concentration-of-credit risk disclosures. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Early adoption is permitted, and entities are encouraged, but not required, to provide comparative disclosures for earlier periods. The adoption of SFAS 161 will not affect our consolidated financial statements or financial condition, but may require additional disclosures if we enter into derivative and hedging activities.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS 141R"), which revises SFAS No. 141. SFAS 141R establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for fiscal years beginning after December 15, 2008; early adoption is not permitted. The adoption of SFAS 141R will have an impact on accounting for business combinations once adopted, but the effect is dependent upon acquisitions at that time.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 permits an entity to measure certain financial assets and financial liabilities at fair value. Under SFAS 159, entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with a few exceptions, as long as it is applied to the instrument in its entirety. SFAS 159 establishes presentation and disclosure requirements, but does not eliminate disclosure requirements of other accounting standards. Assets and liabilities that are measured at fair value must be displayed on the face of the balance sheet. SFAS 159 became effective for fiscal years beginning after November 15, 2007. We did not elect to apply the fair value option under SFAS 159 to any instrument at March 31, 2008.

In September 2006, the FASB issued SFAS 157, which provides a single definition of fair value, along with a framework for measuring it, and requires additional disclosure about using fair value to measure assets and liabilities. SFAS 157 emphasizes that fair value measurement is market-based, not entity-specific, and establishes a fair value hierarchy in which the highest priority is quoted prices in active markets. Under SFAS 157, fair value measurements are disclosed according to their level within this hierarchy. While SFAS 157 does not add any new fair value measurements, it does change current practice in certain ways, including requiring entities to include their own credit standing when measuring their liabilities. SFAS 157 became effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position FAS 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS 157 for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. The nonfinancial assets and nonfinancial liabilities to which SFAS 157 was not applied for the three months ended March 31, 2008 are included under the captions Property and equipment, net; Purchased intangible assets, net; and Goodwill in our condensed consolidated balance sheets. The partial adoption of SFAS 157 for financial assets and financial liabilities did not impact our consolidated results of operations or financial condition.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to a variety of market risks, including changes in interest rates affecting the return on our investments and foreign currency fluctuations. We do not believe that a hypothetical 10% adverse movement in interest rates and foreign currency exchange rates would have a materially different impact than what was disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934 (the "Exchange Act"), as of March 31, 2008. The term "disclosure controls and procedures," as defined in Rule 13a-15(e), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

In our management's Report on Internal Control over Financial Reporting filed with our Annual Report on Form 10-K for the year ended December 31, 2007, we reported material weaknesses in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). During the quarter ended March 31, 2008, we continued to design enhancements to our controls and implemented a limited number of changes to address the reported material weaknesses. As a result of these material weaknesses, which were not remediated as of March 31, 2008, we have concluded that our disclosure controls and procedures were not effective as of March 31, 2008.

Changes in Internal Control over Financial Reporting

Listed below are the changes to our internal control over financial reporting during the quarter ended March 31, 2008, organized by reference to the material weakness to which they relate.

Inadequate financial statement preparation and review procedures:

- We have dedicated specific resources within the finance and information technology organizations to assess and manage modifications to activities leading to the assimilation, processing and recording of transactions.

Inadequate controls over the accounting for stock-based compensation:

- We have further refined the processes and review procedures associated with stock-based compensation and the related accounting treatment.

In addition, we will continue to design and implement additional policies, procedures and controls as required during the remediation of our reported material weaknesses.

Except as described above, there was no change in our internal control over financial reporting during the quarter ended March 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Risks and Inherent Limitations

Prior to the complete remediation of these material weaknesses, there remains risk that the processes and procedures on which we currently rely will fail to be sufficiently effective, which could result in material misstatement of our financial position or results of operations and require a restatement. Moreover, because of the inherent limitations in all control systems, no evaluation of controls—even where we conclude the controls operate effectively—can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, our control systems, as we develop them, may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected and could be material to our financial statements.

The certifications of our principal executive officer and principal financial officer required in accordance with Rule 13a-14(a) under the Exchange Act and Section 302 of the Sarbanes-Oxley Act of 2002 are attached as exhibits to this Quarterly Report on Form 10-Q. The disclosures set forth in this Item 4 contain information concerning the evaluation of our disclosure controls and procedures, and changes in internal control over financial reporting, referred to in paragraph 4 of the certifications. Those certifications should be read in conjunction with this Item 4 for a more complete understanding of the matters covered by the certifications.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

We are a party to the legal proceedings described in part I, Item 3, "Legal Proceedings" of our Annual Report on Form 10-K for the year ended December 31, 2007. There have been no material developments with respect to the legal proceedings during the quarter ended March 31, 2008 other than as set forth below.

On November 7, 2007, we and the plaintiff in the 2004 Restatement Litigation agreed to a settlement in the amount of $40.0 million. On March 31, 2008, the United States District Court for the District of Massachusetts approved the settlement.

On March 25, 2008, our Board of Directors rejected the demands set forth in a shareholder demand letter dated February 15, 2008 submitted by one of the plaintiffs in the derivative litigation dismissed by the court on January 25, 2008.

On March 17, 2008, we filed our answer denying the claims asserted by James Collier, our former Vice President of Sales, in a complaint filed in United States District Court for the District of New Jersey.

By letter dated April 23, 2008, Broadvox requested that we assume the defense of patent litigation filed by Sprint against Broadvox. We have agreed, subject to certain conditions, to assume the defense of Broadvox in this litigation to the extent the claims result from its use of Sonus products.

On April 23, 2008, the appeals court dismissed the plaintiff's appeal of the lower court's dismissal of the plaintiff's shareholder derivative claim filed in Massachusetts Superior Court.

A court-ordered mediation in the C2 patent litigation has been scheduled for May 29, 2008.

For a more detailed discussion of our legal proceedings, please see Note 17 to our condensed consolidated financial statements.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below before buying our common stock. If any of the following risks actually occurs, the trading price of our common stock could decline and you may lose all or part of your investment.

We expect that a majority of our revenue will be generated from a limited number of customers and we will not be successful if we do not grow our customer base.

To date, we have shipped our products to a limited number of customers. We expect that in the foreseeable future, the majority of our revenues will continue to depend on sales of our products to a limited number of customers. One customer contributed approximately 35% of our revenue in the three months ended March 31, 2008. One customer contributed approximately 32% of our revenue in fiscal 2007. Three customers each contributed more than 10% of our revenue in fiscal 2006, or approximately 43% of our revenue in the aggregate. Our future success will depend on our ability to attract additional customers beyond our current limited number. The growth of our customer base could be adversely affected by:

- acquisitions of or by our customers;
- customer unwillingness to implement our new voice infrastructure products;
- potential customer concerns with selecting an emerging telecommunications equipment vendor;

- delays or difficulties that we may incur in completing the development and introduction of our planned products or product enhancements;
- deterioration in the general financial condition of service providers or inability to raise capital;
- new product introductions by our competitors;
- failure of our products to perform as expected; or
- difficulties we may incur in meeting customers' delivery requirements.

The loss of any of our significant customers or any substantial reduction in orders or contractual commitments from these customers could materially and adversely affect our financial position and results of operations. If we do not expand our customer base to include additional customers that deploy our products in operational commercial networks, our business, operating results and financial position could be materially and adversely affected.

If we fail to compete successfully against incumbent telecommunications equipment companies, our ability to increase our revenues and sustain profitability will be impaired.

Competition in the telecommunications market is intense. This market has historically been dominated by large incumbent telecommunications equipment companies, such as Alcatel-Lucent, NEC, Nortel Networks, Nokia Siemens, Huawei and Ericsson, all of which are our direct competitors. We also face competition from other large telecommunications and networking companies, including Cisco Systems, some of which have entered our market by acquiring companies that design competing products. Alcatel and Lucent completed their merger. Siemens has combined its networking business with Nokia's networking business. Other competitors may merge, intensifying competition. Additional competitors with significant financial resources also may enter our markets and further intensify competition.

Many of our current and potential competitors have significantly greater selling and marketing, technical, manufacturing, financial and other resources. Further, some of our competitors sell significant amounts of other products to our current and prospective customers and have the ability to offer lower prices to win business. Our competitors' broad product portfolios, coupled with already existing relationships, may cause our customers to buy our competitors' products or harm our ability to attract new customers.

To compete effectively, we must deliver innovative products that:

- provide extremely high reliability and voice quality;
- scale easily and efficiently;
- interoperate with existing network designs and other vendors' equipment;
- provide effective network management;
- are accompanied by comprehensive customer support and professional services;
- provide a cost-effective and space efficient solution for service providers; and
- meet price competition from low cost equipment providers.

If we are unable to compete successfully against our current and future competitors, we could experience price reductions, order cancellations, loss of customers and revenues and reduced gross profit margins.

We may face risks associated with our international expansion that could impair our ability to grow our international revenues.

International revenues approximated $12 million in the three months ended March 31, 2008, and $85 million and $78 million in fiscal 2007 and fiscal 2006, respectively, and we intend to expand our sales in international markets. This expansion will require significant management attention and financial resources to successfully develop direct and indirect international sales and support channels. In addition, we may not be able to develop international market demand for our products, which could impair our ability to grow our revenues. We have limited experience marketing, distributing and supporting our products internationally and, to do so, we expect that we will need to develop versions of our products that comply with local standards. Furthermore, international operations are subject to other inherent risks, including:

- reliance on distributors and resellers;
- greater difficulty collecting accounts receivable and longer collection cycles;
- difficulties and costs of staffing and managing international operations;
- the impact of differing technical standards outside the United States;
- the impact of recessions in economies outside the United States;
- changes in regulatory requirements and currency exchange rates;
- certification requirements;
- reduced protection for intellectual property rights in some countries;
- potentially adverse tax consequences; and
- political and economic instability.

Consolidation in the telecommunications industry could harm our business.

The industry has experienced consolidation and we expect this trend to continue. Consolidation among our customers may cause delays or reductions in capital expenditure plans and/or increased competitive pricing pressures as the number of available customers declines and their relative purchasing power increases in relation to suppliers. Any of these factors could adversely affect our business.

We face risks related to securities litigation that could result in significant legal expenses and settlement or damage awards.

We have been named as a defendant in a number of securities class action and derivative lawsuits. We are generally obliged, to the extent permitted by law, to indemnify our current and former directors and officers who are named as defendants in these lawsuits. Defending against existing and potential litigation may require significant attention and resources of management. Regardless of the outcome, such litigation will result in significant legal expenses. On November 7, 2007, the Company and the plaintiff in the 2004 Restatement Litigation agreed to a settlement in the amount of $40.0 million. The settlement was approved by the court on March 31, 2008. If our defenses in any of our pending litigation are ultimately unsuccessful, or if we are unable to achieve a favorable settlement, we could be liable for large damage awards that could have a material adverse effect on our business, results of operations and financial position.

The investigation of our historical stock option practices and the restatement of our prior financial statements required us to incur substantial expenses and diverted our management's attention from our business, which may continue to impact our business, financial position and results of operations and the trading price of our common stock.

Our internal review and our Audit Committee's investigation into our historical stock option practices and accounting required us to incur substantial expenses for legal, accounting, tax and other professional services, diverted management's attention from our business, and could in the future harm our business, financial condition and results of operations.

While we believe we have made appropriate judgments in determining the correct measurement dates for our stock option grants, the SEC may disagree with the manner in which we have accounted for and reported, or not reported, the financial impact. Accordingly, there is a risk we may have to further restate our historical financial statements, amend prior filings with the SEC, or take other actions not currently contemplated.

Matters related to the investigation into our historical stock option granting practices and the restatement of our financial statements may result in additional litigation, regulatory proceedings and government enforcement actions for which we may be required to pay damages or penalties or have other remedies imposed.

Our historical stock option granting practices and the restatement of our financial statements have exposed us to greater risks associated with litigation, regulatory proceedings and government enforcement action. We have provided the results of our internal review and investigation to the SEC, which has notified us of a formal order of private investigation. We have responded to requests for documents and additional information and we intend to continue to cooperate with the SEC. No assurance can be given regarding the outcomes from litigation, regulatory proceedings or government enforcement actions relating to our past stock option practices. The resolution of these matters will be time-consuming, expensive, and may distract management from the conduct of our business. Furthermore, if we are subject to adverse findings in litigation, regulatory proceedings or government enforcement actions, we could be required to pay damages or penalties or have other remedies imposed, which could harm our business, financial condition, results of operations and cash flows.

We have identified material weaknesses in our internal control over financial reporting, which, if not remedied effectively, could have an adverse effect on the trading price of our common stock and impair our ability to timely file our SEC reports and otherwise seriously harm our business.

Through the documentation, testing and assessment of our internal control over financial reporting pursuant to the rules promulgated by the SEC under Section 404 of the Sarbanes-Oxley Act of 2002 and Item 308 of Regulation S-K, management has concluded that our disclosure controls and procedures and our internal control over financial reporting had material weaknesses as of December 31, 2007. Our inability to remedy such material weaknesses promptly and effectively could have a material adverse effect on our business, results of operations and financial condition, as well as impair our ability to meet our quarterly and annual reporting requirements in a timely manner. Prior to the elimination of these material weaknesses, there remains risk that the transitional controls on which we currently rely will fail to be sufficiently effective, which could result in a material misstatement of our financial position or results of operations and require a restatement. In addition, even if we are successful in strengthening our controls and procedures, such controls and procedures may not be adequate to prevent or identify irregularities or facilitate the fair presentation of our financial statements or SEC reporting.

Failure or circumvention of our controls and procedures could impair our ability to report accurate financial results and could seriously harm our business.

Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, and not absolute, assurances that the objectives of the system are met. The failure or circumvention of our controls, policies and procedures could impair our ability to report accurate financial results and could have a material adverse effect on our business, results of operations and financial position.

The limitations of our director and officer liability insurance may require us to pay significant legal expenses and settlement or damage awards.

Our director and officer liability insurance policies provide only limited liability protection relating to the securities class action and derivative lawsuits against us and certain of our officers and directors. If these policies do not adequately cover expenses and certain liabilities relating to these lawsuits, our results of operations and our financial position could be materially harmed. We have agreed to pay an amount in excess of available insurance coverage to settle the 2004 Restatement Litigation. To resolve an insurance coverage dispute with our insurer regarding the coverage provided by one of our policies, we have purchased additional coverage for a one-time premium payment of $770,000. The facts underlying the lawsuits have made director and officer liability insurance extremely expensive for us, and may make such insurance coverage unavailable for us in the future. Increased premiums could materially harm our financial results in future periods. The inability to obtain this coverage due to its unavailability or prohibitively expensive premiums would make it more difficult to retain and attract officers and directors and potentially expose us to self-funding any future liabilities ordinarily mitigated by director and officer liability insurance.

If we are not current in our SEC filings, we will face several adverse consequences.

From August 9, 2006 through August 2, 2007, we were not current in our SEC filings. In addition, our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 was due February 29, 2008 and was not filed until March 6, 2008. If we are unable to remain current in our SEC filings, we will not be able to have a registration statement under the Securities Act of 1933, covering a public offering of securities, declared effective by the SEC, and we will not be able to make offerings pursuant to existing registration statements (including registration statements on Form S-8 covering employee stock plans), or pursuant to certain "private placement" rules of the SEC under Regulation D to any purchasers not qualifying as "accredited investors." In addition, our affiliates will not be able to sell our securities pursuant to Rule 144 under the Securities Act. Finally, we will not be eligible to use a "short form" registration statement on Form S-3 until September 1, 2008 and we have lost our status as a "well known seasoned issuer," including the registration advantages associated with such status. These restrictions may impair our ability to raise capital in the public markets should we desire to do so, and to attract and retain key employees.

Our common stock may be delisted from the NASDAQ Global Select Market and transferred to the National Quotation Service Bureau ("Pink Sheets"), which may, among other things, reduce the price of our common stock and the levels of liquidity available to our stockholders.

On August 2, 2007, we filed the Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 (the "Second Quarter Form 10-Q"), the Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (the "Third Quarter Form 10-Q"), the Annual Report on Form 10-K for the year ended December 31, 2006 (the "2006 Form 10-K") and the Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 (the "First Quarter Form 10-Q") with the SEC. The filing of these reports remedied our non-compliance with Marketplace Rule 4310(c)(14). However, if the SEC disagrees with the manner in which we have accounted for and reported, or not reported, the financial impact of past stock option grants, there could be further delays in filing subsequent SEC reports or other actions that might result in the delisting of our common stock from the NASDAQ Global Select Market.

In addition, if we fail to timely file all of our future periodic reports under the Exchange Act, our common stock may be delisted from the NASDAQ Global Select Market and subsequently would trade on the Pink Sheets. The trading of our common stock on the Pink Sheets may reduce the price of our common stock and the levels of liquidity available to our stockholders. Our delisting from the NASDAQ Global Select Market and transfer to the Pink Sheets may also result in other negative implications, including the potential loss of confidence by suppliers, customers and employees, the loss of institutional investor interest and fewer business development opportunities.

We have a limited number of shares available to issue to our employees, which could impact our ability to attract, retain and motivate key personnel.

We historically have used stock options as a significant component of our employee compensation program in order to align employees' interests with the interests of our stockholders, encourage employee retention, and provide competitive compensation packages. In 2007, our shareholders approved a new stock incentive plan which includes a limited amount of shares to be granted under the plan. The limited number of shares available for use as equity incentives to employees may make it more difficult for us to attract, retain and motivate key personnel.

The market for voice infrastructure products for the public network is new and evolving and our business will suffer if it does not develop as we expect.

The market for our products continues to evolve. In particular, wireless, cable and broadband access networks are becoming important markets for our products. Packet-based technology may not become widely accepted as a platform for voice and a viable market for our products may not be sustainable. If this market does not develop, or develops more slowly than we expect, we may not be able to sell our products in significant volume. Additionally, the introduction of new products with higher capacity may result in a decrease in the manufacturing volumes of our older products and a corresponding decrease in component purchase volume discounts. This could result in higher overall manufacturing costs.

If we do not anticipate and meet specific customer requirements or if our products do not interoperate with our customers' existing networks, we may not retain current customers or attract new customers.

To achieve market acceptance for our products, we must effectively anticipate, and adapt in a timely manner to, customer requirements and offer products and services that meet changing customer demands. Prospective customers may require product features and capabilities that our current products do not have. The introduction of new or enhanced products also requires that we carefully manage the transition from older products in order to minimize disruption in customer ordering patterns and ensure that adequate supplies of new products can be delivered to meet anticipated customer demand. If we fail to develop products and offer services that satisfy customer requirements, or to effectively manage the transition from older products, our ability to create or increase demand for our products would be seriously harmed and we may lose current and prospective customers.

Many of our customers will require that our products be designed to interface with their existing networks, each of which may have different specifications. Issues caused by an unanticipated lack of interoperability may result in significant warranty, support and repair costs, divert the attention of our engineering personnel from our hardware and software development efforts and cause significant customer relations problems. If our products do not interoperate with those of our customers' networks, installations could be delayed or orders for our products could be cancelled, which would seriously harm our gross margins and result in loss of revenues or customers.

Our large customers have substantial negotiating leverage, which may require that we agree to terms and conditions that may have an adverse effect on our business.

Large telecommunications providers have substantial purchasing power and leverage in negotiating contractual arrangements with us. These customers may require us to develop additional features, require penalties for failure to deliver such features and may seek discounted product or service pricing. As we sell more products to this class of customer, we may be required to agree to such terms and conditions, which may affect the timing of revenue recognition, amount of deferred revenues or product and service margins and may adversely affect our financial position in the applicable period affected.

We rely on distribution partners to sell our products in certain markets, and disruptions to or our failure to effectively develop and manage our distribution channel and the processes and procedures that support it could adversely affect our ability to generate revenues from the sale of our products in those markets.

Our future success is highly dependent upon establishing and maintaining successful relationships with a variety of value-added reseller and distribution partners. A portion of our revenues is derived through distributors, many of which sell competitive products. Our revenues depend in part on sales by these distributors. The loss of or reduction in sales by these distributors could materially reduce our revenues. If we fail to maintain relationships with these distribution partners, fail to develop new relationships with distributors in new markets, fail to manage, train, or provide incentives to existing distributors effectively or if these partners are not successful in their sales efforts, sales of our products may decrease and our operating results could suffer.

In addition, we recognize a portion of our revenue based on a sell-through model using information provided by our distributors. If those distributors provide us with inaccurate or untimely information, the amount or timing of our revenues could be adversely affected.

The unpredictability of our quarterly results may adversely affect the trading price of our common stock.

Our revenues and operating results may vary significantly from quarter to quarter due to a number of factors, many of which are outside of our control and any of which may cause our stock price to fluctuate. Generally, purchases by service providers of telecommunications equipment from manufacturers have been unpredictable and clustered, rather than steady, as the providers build out their networks. The primary factors that may affect our revenues and operating results include the following:

- fluctuation in demand for our voice infrastructure products and the timing and size of customer orders;
- the cancellation or deferral of existing customer orders or the renegotiation of existing contractual commitments;
- the length and variability of the sales cycle for our products;
- the timing of revenue recognition;
- new product introductions and enhancements by our competitors or by us;
- changes in our pricing policies, the pricing policies of our competitors and the prices of the components of our products;

- our ability to develop, introduce and ship new products and product enhancements that meet customer requirements in a timely manner;
- the mix of product configurations sold;
- our ability to obtain sufficient supplies of sole or limited source components;
- our ability to attain and maintain production volumes and quality levels for our products;
- costs related to acquisitions of complementary products, technologies or businesses;
- general economic conditions, as well as those specific to the telecommunications, networking and related industries;
- consolidation within the telecommunications industry, including acquisitions of or by our customers; and
- the application of complex revenue recognition accounting rules to our customer arrangements.

As with other telecommunications product suppliers, we may recognize a portion of our revenue in a given quarter from sales booked and shipped in the last weeks of that quarter. As a result, delays in customer orders may result in delays in shipments and recognition of revenue beyond the end of a given quarter.

A significant portion of our operating expenses is fixed in the short-term. If revenues for a particular quarter are below expectations, we may not be able to reduce operating expenses proportionally for the quarter. Any such revenue shortfall would, therefore, have a significant effect on our operating results for the quarter.

We have incurred significant losses since inception and, at March 31, 2008, had an accumulated deficit of $751.4 million. Although we achieved profitability on an annual basis in fiscal 2006, fiscal 2005 and fiscal 2004, we have incurred a net loss in certain quarters and in fiscal 2007 and may incur additional losses in future quarters and years. Our revenues may not grow and we may never generate sufficient revenues to sustain profitability.

We believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance. It is likely that in some future quarters, our operating results may be below the expectations of public market analysts and investors, which may adversely affect our stock price.

We are entirely dependent upon our voice infrastructure products, and our future revenues depend upon their commercial success.

Our future growth depends upon the commercial success of our voice infrastructure products. We intend to develop and introduce new products and enhancements to existing products in the future. We may not successfully complete the development or introduction of these products. If our target customers do not adopt, purchase and successfully deploy our current or planned products, our revenues will not grow.

If we do not respond rapidly to technological changes or to changes in industry standards, our products could become obsolete.

The market for packet voice infrastructure products is likely to be characterized by rapid technological change and frequent new product introductions. We may be unable to respond quickly or effectively to these developments. We may experience difficulties with software development, hardware design, manufacturing or marketing that could delay or prevent our development, introduction or marketing of new products and enhancements. The introduction of new products by our competitors, the market acceptance of products based on new or alternative technologies or the emergence of new industry standards could render our existing or future products obsolete. If the standards adopted are different from those that we have chosen to support, market acceptance of our products may be significantly reduced or delayed. If our products become technologically obsolete, we may be unable to sell our products in the marketplace and generate revenues.

Because our products are sophisticated and designed to be deployed in complex environments, they may have errors or defects that we find only after full deployment, which could seriously harm our business.

Our products are sophisticated and are designed to be deployed in large and complex networks. Because of the nature of our products, they can only be fully tested when substantially deployed in very large networks with high volumes of traffic. Some of our customers have only recently begun to commercially deploy our products and they may discover errors or defects in the software or hardware, or the products may not operate as expected. As we continue to expand our distribution channel through distributors and resellers, we will need to rely on and support their service and support organizations. If we are unable to fix errors or other performance problems that may be identified after full deployment of our products, we could experience:

- loss of, or delay in, revenues;
- loss of customers and market share;
- a failure to attract new customers or achieve market acceptance for our products;
- increased service, support and warranty costs and a diversion of development resources; and
- costly and time-consuming legal actions by our customers.

Because our products are deployed in large, complex networks around the world, failure to establish a support infrastructure and maintain required support levels could seriously harm our business.

Our products are deployed in large and complex networks around the world. Our customers expect us to establish a support infrastructure and maintain demanding support standards to ensure that their networks maintain high levels of availability and performance. To support the continued growth of our business, our support organization will need to provide service and support at a high level throughout the world. If we are unable to provide the expected level of support and service to our customers, we could experience:

- loss of customers and market share;
- a failure to attract new customers in new geographies;
- increased service, support and warranty costs and a diversion of development resources; and
- network performance penalties.

Changes in our business strategy related to product and maintenance offerings and pricing could affect vendor specific objective evidence ("VSOE") and revenue recognition.

Our business strategy and competition within the industry could exert pricing pressure on our maintenance offerings. Changes in our product or maintenance offerings/packages and related pricing could affect VSOE and require us to reestablish VSOE for some or all of our product or service offerings. If we are required to reestablish VSOE on any of our products or services, we could be required to defer revenue recognition with an impact on the amount of revenue recognized in a reporting period.

We have experienced changes in our senior management which could affect our business and operations.

We have made significant changes in our senior management team since January 1, 2007. Because of these significant changes, our management team may not be able to work together effectively to successfully develop and implement our business strategies. In addition, management will need to devote significant attention and resources to preserve and strengthen relationships with employees, customers and the investor community. If our new management team is unable to achieve these goals, our ability to grow our business and successfully meet operational challenges could be impaired.

If we fail to hire and retain needed personnel, the implementation of our business plan could slow or our future growth could halt.

Our business depends upon highly skilled engineering, sales, marketing and customer support personnel. Any failure to hire or retain needed qualified personnel could impair our growth.

Our future success depends upon the continued services of our executive officers who have critical industry experience and relationships that we rely on to implement our business plan. None of our officers or key employees is bound by an employment agreement for any specific term. The loss of the services of any of our officers or key employees could delay the development and introduction of, and negatively impact our ability to sell, our products.

If we are subject to employment claims, we could incur substantial costs in defending ourselves.

We are subject to employment claims in connection with employee terminations. In addition, companies in our industry whose employees accept positions with competitors may claim that their competitors have engaged in unfair hiring practices. These claims may result in material litigation. We could incur substantial costs defending ourselves or our employees against those claims, regardless of their merits. In addition, defending ourselves from those types of claims could divert our management's attention from our operations. The cost of employment claims may also increase as a result of our increasing international expansion. If we are found liable in connection with any employment claim, we may incur significant costs that could adversely impact our financial position and results of operations.

We depend upon a single contract manufacturer and any disruption in this relationship may cause us to fail to meet the demands of our customers and damage our customer relationships.

We rely on a contract manufacturer to manufacture our products according to our specifications and to fill orders on a timely basis. Our contract manufacturer provides comprehensive manufacturing services, including assembly and certain tests of our products and procurement of materials. Our contract manufacturer also builds products for other companies and may not always have sufficient quantities of inventory available to fill our orders or may not allocate their internal resources to fill these orders on a timely basis. We do not have a long-term supply contract with our manufacturer nor is our manufacturer required to manufacture products for any specified period. We do not have internal manufacturing capabilities to meet our customers' demands. Qualifying a new contract manufacturer and commencing commercial scale production is expensive and time consuming and could result in a significant interruption in the supply of our products. If a change in contract manufacturers results in delays in our fulfillment of customer orders or if a contract manufacturer fails to make timely delivery of orders, we may lose revenues and suffer damage to our customer relationships.

We and our contract manufacturer rely on single or limited sources for supply of some components of our products and if we fail to adequately predict our manufacturing requirements or if our supply of any of these components is disrupted, we will be unable to ship our products.

We and our contract manufacturer currently purchase several key components of our products, including commercial digital signal processors, from single or limited sources. We purchase these components on a purchase order basis. If we overestimate our component and finished goods requirements, we could have excess inventory, which would increase our costs. If we underestimate our requirements, we may not have an adequate supply, which could interrupt manufacturing of our products and result in delays in shipments and revenues.

We currently do not have long-term supply contracts with our component suppliers and they are not required to supply us with products for any specified periods, in any specified quantities or at any set price, except as may be specified in a particular purchase order. In the event of a disruption or delay in supply, or inability to obtain products, we may not be able to develop an alternate source in a timely manner or at favorable prices, or at all. A failure to find acceptable alternative sources could hurt our ability to deliver high-quality products to our customers and negatively affect our operating margins. In addition, reliance on our suppliers exposes us to potential supplier production difficulties, quality variations and unforeseen price increases. Our customers rely upon our ability to meet committed delivery dates, and any disruption in the supply of key components would seriously adversely affect our ability to meet these dates and could result in legal action by our customers, loss of customers or harm our ability to attract new customers. Additionally, any unforeseen price increases could reduce our profitability or force us to increase our prices, which could result in a loss of customers or harm our ability to attract new customers.

Due to long-term customer contracts, we have financial exposure to the continued financial stability of our customers.

Due to the long-term nature of certain customer contracts, we are dependent on the continued financial strength of our customers. If one or more of our significant customers experience financial difficulties, it could result in uncollectible accounts receivable and our loss of significant customers and anticipated service revenue.

If we are not able to obtain necessary licenses of third-party technology at acceptable prices, or at all, our products could become obsolete.

We have incorporated third-party licensed technology into our current products. From time to time, we may be required to license additional technology from third parties to develop new products or product enhancements. Third-party licenses may not be available or continue to be available to us on commercially reasonable terms. The inability to maintain or re-license any third-party licenses required in our current products or to obtain any new third-party licenses to develop new products and product enhancements could require us to obtain substitute technology of lower quality or performance standards or at greater cost, and delay or prevent us from making these products or enhancements, any of which could seriously harm the competitiveness of our products.

Failure by our strategic partners or by us in integrating products provided by our strategic partners could seriously harm our business.

Our solutions include the integration of products supplied by strategic partners, who offer complementary products and services. We rely on these strategic partners in the timely and successful deployment of our solutions to our customers. If the products provided by these partners have defects or do not operate as expected or if we do not effectively integrate and support products supplied by these strategic partners, then we may have difficulty with the deployment of our solutions that may result in:

- loss of, or delay in, revenues;
- increased service, support and warranty costs and a diversion of development resources; and
- network performance penalties.

In addition to cooperating with our strategic partners on specific customer projects, we also may compete in some areas with these same partners. If these strategic partners fail to perform or choose not to cooperate with us on certain projects, in addition to the effects described above, we could experience:

- loss of customers and market share; and

- a failure to attract new customers or achieve market acceptance for our products.

Our ability to compete and our business could be jeopardized if we are unable to protect our intellectual property or become subject to intellectual property rights claims, which could require us to incur significant costs.

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our products or technology. Monitoring unauthorized use of our products is difficult and we cannot be certain that the steps we have taken will prevent unauthorized use of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. If competitors are able to use our technology, our ability to compete effectively could be harmed.

In addition, we and our customers have received inquiries from intellectual property owners and may become subject to claims that we or our customers infringe their intellectual property rights. Any parties asserting that our products infringe upon their proprietary rights could force us to license their patents for substantial royalty payments or to defend ourselves and possibly our customers or contract manufacturers in litigation. These claims and any resulting licensing arrangement or lawsuit, if successful, could subject us to significant royalty payments or liability for damages and invalidation of our proprietary rights. Any potential intellectual property litigation also could force us to do one or more of the following:

- stop selling, incorporating or using our products that use the challenged intellectual property;

- obtain from the owner of the infringed intellectual property right a license to sell or use the relevant technology, which license may not be available on reasonable terms, or at all; or

- redesign those products that use any allegedly infringing technology.

Any lawsuits regarding intellectual property rights, regardless of their success, would be time-consuming, expensive to resolve and would divert our management's time and attention.

On June 14, 2006, C2 Communications sued AT&T, Inc., Verizon Communications, Inc., Qwest, Bellsouth, Sprint Nextel Corporation, Global Crossing and Level 3 in the Eastern District of Texas, Marshall Division. C2 Communications has alleged that each of the defendants infringe U.S. Patent No. 6,243,373 entitled "Method and Apparatus for Implementing a Computer Network Internet Telephone System." We have agreed, subject to certain conditions, to assume the defense of Qwest, Global Crossing and Level 3 in this litigation to the extent the claim results from their use of products purchased from us. There can be no assurance that other defendants who have purchased our products will not seek indemnification from us. On December 3, 2007, the Court held a pre-trial, or Markman hearing, on the claim construction of the patent. The court has scheduled the trial date for September 2008. Court-ordered mediation has been scheduled for May 29, 2008. We believe that the defendants have substantial legal and factual defenses to the infringement claim, which we intend to pursue vigorously on behalf of the defendants for whom we agree or are required to assume defense of the litigation. However, there is no assurance any of the defendants will prevail in defending this action. There also can be no assurance that we will not be required to indemnify any of the defendants from any judgment of infringement rendered against them. We may be required to devote significant time and resources in connection with assuming the defense of the claim of infringement on behalf of the defendants for whom we have agreed to assume defense of the litigation. An adverse outcome with respect to the claim and our indemnification could have a material adverse impact on our business, operating results and financial condition.

On January 24, 2008, Sprint Communications sued two of our customers, Broadvox and Nuvox, in the District of Kansas for patent infringement. There also can be no assurance that we will not be required to indemnify them from any judgment of infringement rendered against them.

Any investments or acquisitions we make could disrupt our business and seriously harm our financial condition.

On April 13, 2007, we acquired Zynetix, designers of innovative GSM infrastructure solutions. On April 18, 2008, we acquired Atreus Systems, Inc., a developer of service provisioning software for VoIP and IMS-based services. We intend to continue investing in, or acquiring, complementary products, technologies or businesses. In the event of future investments or acquisitions, we could:

- issue stock that would dilute our current stockholders' percentage ownership;
- reduce significantly our cash and investments;
- incur debt or assume liabilities;
- incur significant impairment charges related to the write-off of goodwill and purchased intangible assets;
- incur significant amortization expenses related to purchased intangible assets; or
- incur large and immediate write-offs for in-process research and development and stock-based compensation.

Our integration of any acquired products, technologies or businesses will also involve numerous risks, including:

- problems and unanticipated costs associated with combining the purchased products, technologies or businesses;
- diversion of management's attention from our core business;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering markets in which we have limited or no prior experience;
- potential loss of key employees, particularly those of the acquired organizations; and
- integration of internal controls and financial systems.

We may be unable to successfully integrate any products, technologies, businesses or personnel that we might acquire in the future without significant costs or disruption to our business.

If our goodwill or amortizable intangible assets become impaired we may be required to record a significant charge to earnings.

Under generally accepted accounting principles, we review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or amortizable intangible assets may not be recoverable include significant underperformance relative to plan or long-term projections, strategic changes in business strategy,, significant negative industry or economic trends, a significant change in circumstances relative to a large customer, a significant decline in our stock price for a sustained period and a decline in our market capitalization to below net book value. We may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined, negatively impacting our results of operations.

Regulation of the telecommunications industry could harm our operating results and future prospects.

The telecommunications industry is highly regulated and our business and financial condition could be adversely affected by the changes in the regulations relating to the telecommunications industry. Currently, there are few laws or regulations that apply directly to access to or delivery of voice services on IP networks. We could be adversely affected by regulation of IP networks and commerce in any country where we operate, including the United States. Such regulations could include matters such as voice over the Internet or using Internet protocol, encryption technology, and access charges for service providers. The adoption of such regulations could decrease demand for our products, and at the same time increase the cost of selling our products, which could have a material adverse effect on our business, operating results and financial position.

Changes in effective tax rates or adverse outcomes resulting from examination of our income or other tax returns could adversely affect our results.

Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated earnings in countries where we have higher statutory rates, by changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws or interpretations thereof. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals. Our payroll tax returns were selected for audit in connection with our stock option review and we settled this audit in the first quarter of 2008. In addition, we are subject to the potential for examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these potential examinations will not have an adverse effect on our operating results and financial condition.

Our stock price has been and may continue to be volatile.

The market for technology stocks has been and will likely continue to be volatile. The following factors could cause the market price of our common stock to fluctuate significantly:

- the addition or loss of any major customer;
- consolidation in the telecommunications industry; changes in the financial condition or anticipated capital expenditure purchases of any existing or potential major customer;
- quarterly variations in our operating results;
- changes in financial estimates by securities analysts;
- speculation in the press or investment community;
- announcements by us or our competitors of significant contracts, new products or acquisitions, distribution partnerships, joint ventures or capital commitments;
- sales of common stock or other securities by us or by our stockholders in the future;

- securities and other litigation;
- announcement of a stock split, reverse stock split, stock dividend or similar event;
- economic conditions for the telecommunications, networking and related industries; and
- worldwide economic instability.

Changes in foreign exchange rates could adversely affect our results.

Many of our sales transactions with foreign customers are denominated in the local currency of the customers' country of domicile. We currently do not actively hedge transactions payable in foreign currencies. Significant fluctuations in exchange rates between the U.S. dollar and foreign currencies may adversely affect our operating results or financial condition.

Provisions of our charter documents and Delaware law have anti-takeover effects that could prevent a change of control.

Provisions of our amended and restated certificate of incorporation, our amended and restated by-laws and Delaware law could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We have not announced any currently effective authorization to repurchase shares of our common stock. However, upon vesting of restricted stock awards, employees are permitted to return to us a portion of the newly vested shares to satisfy the tax withholding obligations that arise in connection with such vesting. The following table summarizes repurchases of our common stock during the first quarter of fiscal 2008, which represent shares returned to satisfy tax withholding obligations:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
January 1, 2008 to January 31, 2008	—	—	—	—
February 1, 2008 to February 29, 2008	9,583	$ 3.83	—	—
March 1, 2008 to March 31, 2008	—	—	—	—
Total	9,583	$ 3.83	—	—

Item 6. Exhibits

Exhibit Number	Description
10.1	Nonstatutory Stock Option Agreement Granted Under 2007 Stock Incentive Plan.
10.2	Award of Restricted Stock and Restricted Stock Agreement Under the 2007 Stock Incentive Plan.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

Dated: May 8, 2008	SONUS NETWORKS, INC.
	By: /s/ RICHARD J. GAYNOR
	Richard J. Gaynor *Chief Financial Officer* *(Principal Financial Officer)*
	By: /s/ PAUL K. MCDERMOTT
	Paul K. McDermott *Vice President of Finance, Corporate Controller and Principal Accounting Officer* *(Principal Accounting Officer)*

EXHIBIT INDEX

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Exhibit 10.1

Sonus Networks, Inc.

Nonstatutory Stock Option Agreement
Granted Under 2007 Stock Incentive Plan

1. *Grant of Option.*

This agreement evidences the grant by Sonus Networks, Inc. a Delaware corporation (the "Company"), on the date set forth on the Notice of Grant (the "Grant Date") to the Participant, of an option to purchase, in whole or in part, on the terms provided herein and in the Company's 2007 Stock Incentive Plan (the "Plan"), the number of shares set forth on the Notice of Grant (the "Shares") of common stock, $0.001 par value per share, of the Company ("Common Stock") at the price per Share on the Notice of Grant. Unless earlier terminated, this option shall expire at 5:00 p.m., Eastern Time, on the date ten years from the Grant Date (the "Final Exercise Date").

It is intended that the option evidenced by this agreement shall not be an incentive stock option as defined in Section 422 of the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder (the "Code"). Except as otherwise indicated by the context, the term "Participant", as used in this option, shall be deemed to include any person who acquires the right to exercise this option validly under its terms.

2. *Vesting Schedule.*

This option will become exercisable ("vest") as to 25% of the original number of Shares on the first anniversary of the Grant Date and as to an additional 2.0833% of the original number of Shares at the end of each successive month period following the first anniversary of the Grant Date until the fourth anniversary of the Grant Date (the "Final Vesting Date"). All Shares that are not at any particular time vested shall be referred to as "Unvested Shares."

The right of exercise shall be cumulative so that to the extent the option is not exercised in any period to the maximum extent permissible it shall continue to be exercisable, in whole or in part, with respect to all Shares for which it is vested until the earlier of the Final Exercise Date or the termination of this option under Section 3 hereof or the Plan.

Effective immediately prior to the occurrence of an Acquisition (as defined in the Plan), an additional number of Unvested Shares equal to the lesser of (i) the number of then Unvested Shares or (ii) 25% of the total number of Shares shall be deemed vested. In such event, the balance of the Unvested Shares shall continue to vest in the monthly amount set forth in Section 2 hereof and the Final Vesting Date shall be shortened by 12 months.

3. *Exercise of Option.*

(a) *Form of Exercise.* Each election to exercise this option shall be in writing, signed by the Participant, and received by the Company at its principal office, accompanied by this agreement, and payment in full in the manner provided in the Plan. The Participant may purchase less than the number of shares covered hereby, provided that no partial exercise of this option may be for any fractional share.

(b) *Continuous Relationship with the Company Required.* Except as otherwise provided in this Section 3, this option may not be exercised unless the Participant, at the time he or she exercises this option, is, and has been at all times since the Grant Date, an employee, officer or director of, or consultant or advisor to, the Company or any other entity the employees, officers, directors, consultants, or advisors of which are eligible to receive option grants under the Plan (an "Eligible Participant").

(c) *Termination of Relationship with the Company.* If the Participant ceases to be an Eligible Participant for any reason, then, except as provided in paragraphs (d) and (e) below, the right to exercise this option shall terminate three months after such cessation (but in no event after the Final Exercise Date), *provided that* this option shall be exercisable only to the extent that the Participant was entitled to exercise this option on the date of such cessation. Notwithstanding the foregoing, if the Participant, prior to the Final Exercise Date, violates the non-competition or confidentiality provisions of any employment contract, confidentiality and nondisclosure agreement or other agreement between the Participant and the Company, the right to exercise this option shall terminate immediately upon such violation.

(d) *Exercise Period Upon Death or Disability.* If the Participant dies or becomes disabled (within the meaning of Section 22(e)(3) of the Code) prior to the Final Exercise Date while he or she is an Eligible Participant and the Company has not terminated such relationship for "cause" as specified in paragraph (e) below, this option shall be exercisable, within the period of 180 days following the date of death or disability of the Participant, by the Participant (or in the case of death by an authorized transferee), *provided that* this option shall be exercisable only to the extent that this option was exercisable by the Participant on the date of his or her death or disability, and further provided that this option shall not be exercisable after the Final Exercise Date.

(e) *Termination for Cause.* If, prior to the Final Exercise Date, the Participant's employment or other relationship with the Company is terminated by the Company for Cause (as defined below), the right to exercise this option shall terminate immediately upon the effective date of such termination of employment or other relationship. If the Participant is party to an employment, consulting or severance agreement with the Company that contains a definition of "cause" for termination of employment or other relationship, "Cause" shall have the meaning ascribed to such term in such agreement. Otherwise, "Cause" shall mean willful misconduct by the Participant or willful failure by the Participant to perform his or her responsibilities to the Company (including, without limitation, breach by the Participant of any provision of any employment, consulting, advisory, nondisclosure, non-competition or other similar agreement between the Participant and the Company), as determined by the Company, which determination shall be conclusive. The Participant shall be considered to have been discharged for "Cause" if the Company determines, within 30 days after the Participant's resignation, that discharge for cause was warranted.

4. *Withholding.*

No Shares will be issued pursuant to the exercise of this option unless and until the Participant pays to the Company, or makes provision satisfactory to the Company for payment of, any federal, state or local withholding taxes required by law to be withheld in respect of this option.

5. *Nontransferability of Option.*

This option may not be sold, assigned, transferred, pledged or otherwise encumbered by the Participant, either voluntarily or by operation of law, except by will or the laws of descent and distribution, and, during the lifetime of the Participant, this option shall be exercisable only by the Participant.

6. *Provisions of the Plan.*

This option is subject to the provisions of the Plan, a copy of which is furnished to the Participant with this option.

Exhibit 10.2

Sonus Networks, Inc.

Award of Restricted Stock and Restricted Stock Agreement
Under the 2007 Stock Incentive Plan

Additional Terms and Conditions

1. Relationship to Plan. This Award of Restricted Stock and Restricted Stock Agreement (the "Agreement") is made between Sonus Networks, Inc. ("Sonus" or the "Company") and the employee identified on the accompanying signature page (the "Employee"). The Award is granted pursuant to the Company's 2007 Stock Incentive Plan (the "Plan"), and is in all respects subject to the terms and conditions of the Plan, a copy of which has been provided to the Employee (the receipt of which the Employee hereby acknowledges). Capitalized terms used and not otherwise defined in this Agreement are used as defined in the Plan. The Employee hereby accepts the Award subject to all the terms and provisions of the Plan. The Employee further agrees that all decisions under and interpretations of the Plan by the Company will be final, binding, and conclusive upon the Employee and his or her successors, permitted assigns, heirs, and legal representatives.

2. Award and Issuance of Shares. The Company has awarded to the Employee, in consideration of employment services rendered and to be rendered, such number of shares of common stock, $0.001 par value, as is listed on the cover page of this Agreement (the "Shares"). The Company shall issue the Shares to the Employee either by electronic record or by stock certificate issued in the name of the Employee. The Employee agrees that unvested Shares shall be subject to forfeiture as set forth in Section 4 of this Agreement and the restrictions on transfer set forth in Section 5 of this Agreement. The Shares shall be deposited in Escrow in accordance with Section 6 of this Agreement.

3. Vesting. The Shares shall vest as follows: (i) 25% of the Shares shall vest on the first anniversary of the date of grant specified on the cover page of this Agreement (the "Award Date") and (ii) 12.5% of the Shares shall vest on the last day of each six-month period following the first anniversary of the Award Date, through and including the fourth anniversary of the Award Date. Any fractional number of Shares resulting from the application of the foregoing percentages shall be rounded down to the nearest whole number of Shares. The Company may in its discretion accelerate the vesting schedule at any time.

Effective immediately prior to the consummation of an Acquisition (as defined in the Plan), an additional 25% of the number of Shares covered by this Award shall become vested, with the remaining unvested Shares continuing to vest pursuant to the vesting schedule set forth above, provided that such vesting schedule shall be shortened by one year.

4. Forfeiture of Shares. In the event that the Employee ceases to be employed by the Company or a subsidiary for any reason prior to the fourth anniversary of the Award Date, then, effective upon the cessation of his or her employment, the Employee shall automatically forfeit ("Forfeiture"), without any action required on the part of the Employee, all of the unvested Shares ("Forfeited Shares") that the Employee received under the Award without the payment of any consideration by the Company and the Forfeited Shares shall revert to the Company. Upon and after Forfeiture, the Company shall not pay any dividend to the Employee on account of such Forfeited Shares or permit the Employee to exercise any of the privileges or rights of a stockholder with respect to such Forfeited Shares, but shall, in so far as permitted by law, treat the Company as the owner of the Forfeited Shares. Military or sick leave or other bona fide leave will not be deemed a termination of employment provided that it does not exceed the longer of 90 days or the period during which the absent Employee's re-employment rights are guaranteed by statute or by contract.

5. Restrictions on Transfer. The Employee shall not, during the term of this Agreement, sell, assign, transfer, pledge, hypothecate or otherwise dispose of, by operation of law or otherwise (collectively "Transfer"), any of the Shares, or any interest therein, unless and until such Shares are no longer subject to risk of Forfeiture. Notwithstanding the foregoing, the Employee may transfer (i) any or all of his Shares (A) to his parents, spouse, children, stepchildren, grandchildren, or siblings, or spouse of any such person (collectively, "Immediate Family"), (B) to a trust established for the benefit of his Immediate Family or himself, or (C) to a limited liability company or limited partnership, the members or partners of which are members of his Immediate Family or himself, or (ii) any or all of his Shares under his will, *provided* that all such Shares transferred under (i) or (ii) shall remain subject to this Agreement (including without limitation the restrictions on transfer set forth in this Section 5 and the Forfeiture provision in Section 4) and such permitted transferee shall, as a condition to such transfer, deliver to the Company a written instrument confirming that such transferee shall be bound by all of the terms and conditions of this Agreement. The Company shall not be required (a) to transfer on its books any of the Shares which shall have been sold or transferred in violation of any of the provisions set forth in this Agreement, or (b) to treat as owner of such Shares or to pay dividends to any transferee to whom any such Shares shall have been so sold or transferred.

6. Escrow. The Shares shall be deposited by the Employee in escrow either by electronic record or by stock certificate upon (or as promptly as practicable following) the execution of this Agreement and shall be held in escrow by the Secretary of the Company, as escrow agent (the "Escrow Agent"). Upon vesting of the Shares, the Escrow Agent shall release or electronically transfer to the Employee, upon request, those Shares, which have vested (other than any withheld by the Company pursuant to Section 10(b)). In the event Shares are forfeited pursuant to Section 4 or withheld by the Company pursuant to Section 10(b), the Company shall give written notice to the Employee and to the Escrow Agent specifying the number of Forfeited Shares or Shares to be withheld. The Employee and the Company authorize the Escrow Agent to take all necessary or appropriate actions consistent with the terms of this Agreement, including the delivery to the Company of those Shares and stock powers for the Shares being forfeited or withheld by the Company. The escrow shall terminate upon the earliest of (i) the vesting and lapse of forfeiture of all Shares awarded under this Agreement, (ii) the election by the Company to waive forfeiture on all of the unvested Shares, or (iii) the election by the Company to terminate this escrow. If at the time of such termination the Escrow Agent should have in its possession any Shares owed to the Employee, the Escrow Agent shall promptly deliver such Shares to the Employee and shall be discharged of all further obligations hereunder. The Escrow Agent shall be obligated only for the performance of such duties as are specifically set forth herein and may rely and shall be protected in relying or refraining from acting on any instrument reasonably believed by the Escrow Agent to be genuine and to have been signed or presented by the proper party or parties. The Escrow Agent or the Company shall not be liable for any act or omission in good faith and in the exercise of reasonable judgment. It is understood and agreed that should any dispute arise with respect to the delivery and/or ownership or right of possession of the Shares held by the Escrow Agent hereunder, the Escrow Agent is authorized to retain such Shares in its possession without liability to anyone all until such dispute shall have been settled either by mutual written agreement of the parties concerned or by a final order, decree or judgment of a court of competent jurisdiction after the time for appeal has expired. All reasonable costs, fees and disbursements incurred by the Escrow Agent in connection with the performance of its duties hereunder shall be borne by the Company.

Any stock certificate issued to the Employee representing unvested Shares shall have affixed thereto a legend in substantially the following form: "These shares of stock are subject to forfeiture provisions and restrictions on transfer set forth in an Award of Restricted Stock and Restricted Stock Agreement between the corporation and the owner of these shares (or his or her predecessor in interest), and such Agreement is available for inspection without charge at the office of the Secretary of the corporation." If the Shares are issued electronically rather than by a stock certificate issued to the Employee, the electronic record reflecting the issuance of the Shares to the Employee shall bear such a legend or other notation.

7. Adjustments. In the event of any stock split, reverse stock split, stock dividend, recapitalization, combination of shares, reclassification of shares, spin-off or other similar change in capitalization or event, or any dividend or distribution to holders of Common Stock other than an ordinary cash dividend, or any Reorganization Event (as defined in the Plan), the Shares and the other terms of this Agreement shall be adjusted in the manner provided for in Section 10 of the Plan.

8. No Obligation to Continue Employment. The Company and any related corporation are not by the Plan or this Award obligated to continue the Employee's employment.

9. Compliance with Laws. The obligations of the Company and the Employee under this Agreement are subject to all applicable laws, rules, and regulations, including all applicable federal and state securities laws and the obtaining of all such approvals by government agencies as may be deemed necessary or appropriate by the Board of Directors ("Board") or the relevant committee of the Board.

10. Tax Matters.

(a) Section 83(b) Election. The Employee may elect under Section 83(b) of the Internal Revenue Code of 1986, as amended, to be taxed at the time the Shares are acquired on the Award Date ("Section 83(b) Election"). A Section 83(b) Election must be filed with the Internal Revenue Service within thirty (30) days of the Award Date. If the Employee elects, in accordance with Section 83(b), to recognize ordinary income in the year of acquisition of the Shares, the Company will require at the time of such election an additional payment by the Employee in an amount equal to any federal, state, local or other taxes of any kind required by law to be withheld with respect to the issuance of the Shares to the Employee. The Employee acknowledges that he or she is responsible for consulting with his or her own tax advisors regarding the Section 83(b) Election and is solely responsible to file a timely election under Section 83(b).

(b) Withholding Taxes. If the Employee does not make a Section 83(b) Election, then the Employee acknowledges and agrees that the Employee is obligated to pay to the Company the amount of any federal, state, local or other taxes of any kind required by law to be withheld with respect to the vesting of the Shares. The Employee shall satisfy such tax withholding obligations by delivery to the Company, on each date on which Shares vest under this Agreement, such number of Shares that vest on such date as have a fair market value (calculated using the last reported sale price of the common stock of the Company on the NASDAQ Global Select Market on the trading date immediately prior to such vesting date) equal to the amount of the Company's withholding obligation; provided, however, that the total tax withholding cannot exceed the Company's minimum statutory withholding obligations (based on minimum statutory withholding rates for federal and state tax purposes, including payroll taxes, that are applicable to such supplemental taxable income). Such delivery of Shares to the Company shall be deemed to happen automatically, without any action required on the part of the Employee, and the Company is hereby authorized to take such actions as are necessary to effect such delivery of Shares to the Company.

(c) Tax Advice. The Employee acknowledges that he or she is responsible for reviewing with his or her own tax advisors the federal, state, local and other tax consequences of this investment and the transactions contemplated by this Agreement. The Employee acknowledges that he or she is not relying on any statements or representations of the Company or any of its agents. The Employee understands that the Employee (and not the Company) shall be responsible for the Employee's own tax liability that may arise as a result of this investment or the transactions contemplated by this Agreement.

11. General. This Agreement will be governed by and interpreted and construed in accordance with the internal laws of the State of Delaware (without reference to principles of conflicts or choice of law). The captions of the sections of this Agreement are for reference only and will not affect the interpretation or construction of this Agreement. This Agreement will bind and inure to the benefit of the parties and their respective successors, permitted assigns, heirs, devisees, and legal representatives. This Agreement (including the Plan) supersedes all prior agreements, written or oral, between the Employee and the Company relating to the subject matter of this Agreement. This Agreement may be amended or modified only by a written agreement signed by the Company and the Employee.

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EXHIBIT 31.1

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Hassan M. Ahmed, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sonus Networks, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2008	/s/ HASSAN M. AHMED
	Hassan M. Ahmed *President, Chief Executive Officer and Chairman* *(Principal Executive Officer)*

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EXHIBIT 31.2

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Richard J. Gaynor, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sonus Networks, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2008

/s/ RICHARD J. GAYNOR

Richard J. Gaynor
Chief Financial Officer
(Principal Financial Officer)

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EXHIBIT 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Sonus Networks, Inc. (the "Company") for the period ended March 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Hassan M. Ahmed, Chief Executive Officer and Chairman of the Board of Directors of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 8, 2008

/s/ HASSAN M. AHMED

Hassan M. Ahmed
President, Chief Executive Officer and Chairman
(Principal Executive Officer)

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO**

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Sonus Networks, Inc. (the "Company") for the period ended March 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Richard J. Gaynor, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 8, 2008	/s/ RICHARD J. GAYNOR
	Richard J. Gaynor *Chief Financial Officer* *(Principal Financial Officer)*