UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE YEAR ENDED DECEMBER 31, 2000

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.)

5 CARLISLE ROAD, WESTFORD, MASSACHUSETTS 01886
(Address of principal executive offices, including Zip Code)

(978) 692-8999
(Registrant's telephone number, including area code)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy statement or information proxy statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [ ]

ALTHOUGH THE REGISTRANT HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS, THE REGISTRANT DID NOT BECOME SUBJECT TO SUCH FILING REQUIREMENTS UNTIL THE REGISTRATION OF CERTAIN SHARES OF ITS COMMON STOCK PURSUANT TO A REGISTRATION STATEMENT ON FORM S-1 WHICH WAS DECLARED EFFECTIVE BY THE SECURITIES AND EXCHANGE COMMISSION ON MAY 25, 2000.

As of February 15, 2001, there were 202,286,745 shares of Common Stock, $0.001 par value per share, outstanding. As of that date, the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $5,845,035,466.

DOCUMENTS INCORPORATED BY REFERENCE

The information required in Items 10-13 are incorporated by reference to specified portions of the Registrant's definitive Proxy Statement to be issued in conjunction with the Registrant's 2001 Annual Meeting of Stockholders, which is expected to be filed not later than 120 days after the Registrant's fiscal year ended December 31, 2000.

ITEM 1. BUSINESS.

OVERVIEW

We are a leading provider of voice infrastructure products for the new public network. Our products are a new generation of carrier-class switching equipment and software that enable voice services to be delivered over packet-based networks. Our target customers include new and established communications service providers, including long distance carriers, local exchange carriers, Internet service providers, cable operators, international telephone companies and carriers that provide services to other carriers. These service providers are rapidly building packet-based networks to support the dramatic growth in data traffic resulting from Internet use. 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 for telephone calls. By enabling voice traffic to be carried over these packet-based networks, our products will accelerate the convergence of voice and data into the new public network.

Our suite of voice infrastructure products includes the GSX9000 Open Services Switch, PSX6000 SoftSwitch, SGX2000 SS7 Signaling Gateway, System 9200 Internet offload solution and, as a result of our acquisition of telecom technologies, inc., the INtelligentIP softswitch. Our products, designed for deployment at the core of a service provider's network, significantly reduce the cost to build and operate voice services compared to traditional alternatives. Moreover, our products offer a powerful and open platform for service providers to increase their revenues through the creation and delivery of new and innovative voice and data services. Our switching equipment and software can be rapidly and easily deployed, and readily expanded to accommodate growth in traffic volumes. Our products also interoperate with service providers' existing telephone infrastructure, allowing them to preserve the investment in their current networks. Designed for the largest telephone networks in the world, our products offer the reliability and voice quality that have been hallmarks of the public telephone network for decades.

We expect two global forces--deregulation and the expansion of the Internet--to revolutionize the 100-year old public telephone network worldwide. Deregulation has fueled intense competition among service providers and is driving them to reduce their costs and establish new revenue sources. The dramatic rise in Internet use and accompanying growth in data traffic has led service providers to make major investments in high-capacity, packet-based networks. Building and maintaining these packet-based networks in parallel with traditional circuit-switched telephone networks is complex and expensive, driving the demand for a new public network that integrates both voice and data.

Our eleven announced customers include six of the world's leading service providers: Global Crossing, Intermedia Communications, Qwest Communications, Time Warner Telecom, Williams Communications and XO Communications. We sell our products principally through a direct sales force and, in some markets, through distributors and resellers. We also collaborate with our customers to identify and develop new advanced services and applications that they can offer to their customers.

Our objective is to capitalize on our early technology and market lead and build the premier franchise in voice infrastructure solutions for the new public network. The following are key elements of our strategy:

- Leverage our technology leadership to achieve key service provider design wins;

- Expand and broaden our customer base by targeting specific market segments;

- Expand our global sales, marketing, support and distribution capabilities;

- Grow our base of software applications and development partners;

- Leverage our technology platform from the core of the network out to the access edge;

- Actively contribute to the standards definition and adoption process; and

- Expand through investments in and acquisitions of complementary products, technologies and businesses.

ACQUISITION OF TELECOM TECHNOLOGIES, INC.

On January 18, 2001, we acquired telecom technologies, inc., or TTI. Upon the closing of this acquisition, we issued an aggregate of 10,800,000 shares of common stock in exchange for all outstanding capital stock of TTI. Of the 10,800,000 shares issued to the TTI shareholders, 1,200,000 shares were placed into escrow as security for indemnity obligations under the merger agreement, and will be released to TTI shareholders upon expiration of those indemnity obligations, expected to be on the first anniversary of the closing date. In addition, TTI shareholders will have the right to receive up to an aggregate of 4,200,000 additional shares of common stock which have been placed in escrow in the event that TTI achieves certain specified business expansion and product development milestones from time to time prior to December 31, 2002. In connection with our acquisition of TTI, we adopted our 2000 Retention Plan and agreed to issue up to 3,000,000 shares of common stock under this plan to certain employees at TTI who became employees of Sonus, which are subject to vesting and completion of milestones.

INDUSTRY BACKGROUND

The public telephone network is an integral part of our everyday lives. For most of its 100-year history, the telephone industry has been heavily regulated, which has slowed the evolution of its underlying circuit-switching technologies and limited innovation in service offerings and the pricing of telephone services. We expect two global forces--deregulation and the expansion of the Internet--to revolutionize the public telephone network worldwide.

Deregulation of the telephone industry accelerated with the passage of the Telecommunications Act of 1996. The barriers that once restricted service providers to a specific geography or service offering, such as local or long distance, are disappearing. The opportunity created by opening up the $750 billion telephone services market has been attracting thousands of new service providers.

Intense competition between new players and incumbents is driving down prices. With limited ability to reduce the cost structure of the public telephone network, profit margins for traditional telephone services are eroding. In response, service providers are seeking both new, creative and differentiated service offerings and the means to reduce their costs.

Simultaneously, the rapid adoption of the Internet is driving dramatic growth of data traffic. Today a significant portion of this data traffic is carried over the traditional circuit-switched telephone network. However, this circuit-switched network, designed for voice traffic and built long before the advent of the Internet, is not suited to efficiently transport data traffic. In a circuit-switched network, a dedicated path, or circuit, is established for each call, reserving a fixed amount of capacity or bandwidth in each direction. The dedicated circuit is maintained for the duration of the call across all of the circuit switches spanning the path from origination to the destination of the call, even when no traffic is being sent. As a result, a circuit-switched architecture is highly inefficient for Internet applications, which tend to create large bursts of data traffic followed by long periods of silence.

In contrast, a packet network divides traffic into distinct units called packets and routes each packet independently. By combining traffic from users with differing capacity demands at different times, packet networks more efficiently fill available network bandwidth with packets of data from many users, thereby reducing the bandwidth wasted due to silence from any single user. The volume of data traffic continues to increase as use of the Internet and the number of connected users grow, driving service providers to build large-scale, more efficient packet networks.

With voice traffic carried over the vast installed base of traditional circuit-switched networks and data traffic carried over rapidly expanding packet networks, service providers are faced with the expense and complexity of building and maintaining parallel networks.

The following diagrams depict these parallel voice and data networks.

[Two diagrams appear: the first diagram is symmetric and depicts a circuit-switched network. A large, rectangular box labeled "Circuit Switched. Network" is in the center. The box contains a series of small shapes aligned linearly and connected by a straight bold line. From left to right, the shapes are a small circle labeled "End Office," two small hexagons labeled "Tandem" and a small circle labeled "End Office." Outside of the rectangular box on each side is an icon representing a telephone connected to the outer circle labeled "End Office" by a bold line. Also on each side and connected to the outer "End Office" circle by dotted lines are icons representing a fax machine and second telephone. Above the rectangular box and connected by dotted lines to each of the small shapes inside of the large rectangle is a shaded oval labeled "SS7."

Lower diagram is symmetric and depicts a generic packet-switched network. Shaded cloud labeled "Packet Network" is aligned directly below the rectangular box of the upper diagram. On the left and right side of the cloud, aligned linearly, are icons representing a computer, connected to the cloud by dotted lines. Connected to the bottom of the cloud by dotted lines are three additional computers.]

THE NEED FOR, AND BENEFITS OF, COMBINING VOICE AND DATA NETWORKS

We believe significant opportunities exist in uniting these separate, parallel networks into a new integrated public network capable of transporting both voice and data traffic. Enormous potential savings can be realized by eliminating redundant or overlapping equipment purchases and reducing network operating costs. Also, combining traditional voice services with Internet or Web-based services in a single network is expected to enable new and powerful high-margin, revenue-generating service offerings such as single-number dialing, unified messaging, Internet click-to-talk, sophisticated call centers and other services.

The packet network is the platform for the new public network. The volume of data traffic has already eclipsed voice traffic and is growing much faster than voice. Packet architectures are more efficient at moving data, more flexible and reduce equipment and operating costs. The key to realizing the full potential of a converged, packet-based network is to enable the world's voice traffic to run over those networks.

Early attempts to develop new technologies to carry voice traffic over packet networks have included voice over Internet protocol, or VoIP, systems using a personal computer platform and devices that added VoIP capability to existing data devices such as remote access servers. While demonstrating the viability of transmitting voice over packet technology, these approaches have fallen far short of the quality, reliability and scalability required by the public telephone network.

These early VoIP systems have also lacked the ability to interoperate with the signaling infrastructure of the circuit-switched network. Without this signaling capability, VoIP applications cannot provide the consistent "look, sound and feel" of traditional telephone calls and are not well-suited to more complex applications such as voicemail, unified messaging and other value-added services.

The public telephone network is large, highly complex and generates significant revenues, a substantial majority of which are derived from voice services. Given service providers' substantial investment in, and dependence upon, traditional circuit-switched technology, their transition to the new public network will be gradual. During this transition, an immediate opportunity exists to reduce the burden on overloaded and expensive circuit-switched resources. Internet offload will allow modem-connected Internet calls to be identified and diverted from the circuit-switched network to the packet network, thus optimizing use of valuable network bandwidth.

REQUIREMENTS FOR VOICE INFRASTRUCTURE PRODUCTS FOR THE NEW PUBLIC NETWORK

Users demand high levels of quality and reliability from the public telephone network and service providers require a cost-efficient network that enables new revenue-generating services. As a result, voice infrastructure products for the new public network must satisfy the following requirements:

CARRIER-CLASS PERFORMANCE. Because they operate complex, mission-critical networks, service providers have clear infrastructure requirements. These include extremely high reliability, quality and interoperability. For example, service providers typically require equipment that complies with their 99.999% availability standard.

SCALABILITY AND DENSITY. Infrastructure solutions for the new public network face challenging scalability requirements. Service providers' central offices typically support tens or even hundreds of thousands of simultaneous calls. In order to be economically attractive, the new infrastructure must compare favorably with existing networks in terms of cost per port, space occupied, power consumption and cooling requirements.

COMPATIBILITY WITH STANDARDS AND EXISTING INFRASTRUCTURE. New infrastructure equipment and software must support the full range of telephone network standards, including signaling protocols such as SS7 and various physical interfaces such as ISDN, primary rate interface, or PRI, and T1. It must also support data networking protocols such as Internet protocol, or IP, and asynchronous transfer mode, or ATM, as well as newer protocols such as H.323, IPDC and SIP. When operating, the new equipment and software cannot hinder, and ideally should enhance, the capabilities of the existing infrastructure, for example, by alleviating Internet access bottlenecks.

INTELLIGENT SOFTWARE IN AN OPEN AND FLEXIBLE PLATFORM. The architecture for the new public network will decouple the capabilities of traditional circuit-switching equipment into robust hardware elements and highly intelligent software platforms that provide control, signaling and service creation capabilities. This approach will transform the closed, proprietary circuit-switched public telephone network into a flexible, open environment accessible to a wide range of software developers. Service providers and third-party vendors will be able to develop and implement new applications independent of switch vendors. Moreover, the proliferation of independent software providers promises to drive the creation of innovative voice and data services that could expand service provider revenues.

SIMPLE AND RAPID INSTALLATION, DEPLOYMENT AND SUPPORT. Infrastructure solutions must be easy to install, deploy, configure and manage. These attributes will enable rapid growth and effective management of dynamic and complex service provider networks.

THE SONUS SOLUTION

We develop, market and sell what we believe to be the first comprehensive suite of voice infrastructure products purpose-built for the deployment and management of voice and data services over the new public network. The Sonus solution consists of five carrier-class products:

- the GSX9000 Open Services Switch;

- the PSX6000 SoftSwitch;

- the INtelligentIP softswitch;

- the SGX2000 SS7 Signaling Gateway; and

- the System 9200 Internet offload solution.

These products are designed to offer high reliability, toll-quality voice, improved economics, interoperability, rapid deployment and an open architecture enabling the design and implementation of new services and applications. Our solution has been specifically designed to meet the requirements of the new public network. As shown in the following diagram, our products unite the voice and data networks, unleashing the potential of the new public network.

[Symmetric diagram with shaded cloud labeled "Packet Network" at the center. Aligned on the horizontal axis extending from each of the left and right sides of the "Packet Network" cloud is a box with caption reading "GSX9000 Open Services Switch" and a small cloud labeled "Public Telephone Network." Connected to the small cloud by bold lines are icons representing telephones and fax machines. Below the center "Packet Network" cloud and connected by bold lines are a stacked figure labeled "3rd Party Application Servers" and an icon representing a computer. Above the center "Packet Network" cloud on the left side is a small box labeled "SGX2000 SS7 Signaling Gateway" connected by a bold line. Above that box to the left, connected by a dotted line, is an oval labeled "SS7." Above the center "Packet Network" cloud on the right side are two small boxes labeled "PSX6000 SoftSwitch" and "INtelligentIP Softswitch."]

CARRIER-CLASS PERFORMANCE. Our products are designed to offer the highest levels of quality, reliability and interoperability, including:

- full redundancy, enabling 99.999% availability;

- voice quality as good as, or superior to, today's circuit-switched network;

- system hardware designed for network equipment building standards, or NEBS, Level 3 compliance;

- a complete set of service features, addressing those found in the existing voice network and extending them to offer greater flexibility; and

- sophisticated network management and configuration capabilities.

COMPATIBILITY WITH STANDARDS AND EXISTING INFRASTRUCTURE. Our products are designed to be compatible with all applicable voice and data networking standards and interfaces, including:

- SS7 and other telephone network signaling protocols, including advanced services as well as simple call management and routing;

- IP, ATM, Ethernet and optical data networking standards;

- encoding, compression and call management standards including H.323, IPDC, SIP and others;

- voice coding standards such as G.711 and echo cancellation standard G.168; and

- all common interfaces, including T1, T3, E1 and PRI, and optical interfaces.

The Sonus solution is designed to interface with legacy circuit-switching equipment, supporting the transparent flow of calls and other information between the circuit and packet networks. As a result, our products allow service providers to migrate to the new public network, while preserving their significant legacy infrastructure investments.

COST EFFECTIVENESS AND HIGH SCALABILITY. The Sonus solution can be used to cost-effectively build packet-based switch configurations supporting a range from a few hundred calls to hundreds of thousands of simultaneous calls. In addition, the capital cost of our equipment is typically half that of traditional circuit-switched equipment. At the same time, our GSX9000 Open Services Switch offers unparalleled density, requires less than one-tenth of the space needed by circuit-switching implementations and requires significantly less power and cooling. This enables a significant reduction in expensive central office facilities' cost and allows service providers to deploy our equipment in locations where traditional circuit switches are not even an option given the limited space and environmental services.

The GSX9000 Open Services Switch can create central office space savings as shown below.

[Three dimensional diagram with a set of four rectangular bars parallel to one another and lined up evenly with caption reading "Traditional Circuit Switch (50,000 calls)." Depicted in front of the rectangular bars is a single, small, upright rectangular box labeled "Sonus GSX9000 Open Services Switch (50,000 calls)." Extending from each of the left and right sides of the small rectangular box back to the sides of the first of the four larger bars is a thin line.]

OPEN SOFTWARE ARCHITECTURE AND FLEXIBLE PLATFORM. Our Open Services Architecture, or OSA, is based on a software-centric design and a flexible platform, allowing rapid development of new products and services. For example, software intelligence in our System 9200 can detect Internet modem calls as they enter the network and divert them to remote access servers to be routed directly to a packet network. New services may be developed by us, by service providers or by any number of third parties including software developers and systems integrators. The OSA also facilitates the creation of services that were previously not possible on the circuit-switched network. In addition, we have partnered with a number of third-party application software developers to stimulate the growth of new applications available for our platform.

EASE OF INSTALLATION AND DEPLOYMENT. Our equipment and software can be installed and placed in service by our customers much more quickly than circuit-switching equipment. By offering comprehensive testing, configuration and management software, we expedite the deployment process as well as the ongoing management and operation of our products. We believe that typical installations of our solution require just weeks of time from product arrival to final testing, thereby reducing the cost of deployment and speeding the time to market for new services.

THE SONUS STRATEGY

Our objective is to capitalize on our early technology and market lead and build the premier franchise in voice infrastructure solutions for the new public network. The following are key elements of our strategy:

LEVERAGE TECHNOLOGY LEADERSHIP TO ACHIEVE KEY SERVICE PROVIDER DESIGN WINS. As the first company to provide voice infrastructure products for the new public network, we plan to achieve key design wins with market-leading service providers as they develop the architecture for their new voice networks. We expect service providers to select vendors that provide leading technology and the ability to maintain that technology leadership. Our equipment is an integral part of the network architecture and achieving design wins will enable us to rapidly grow our business as these networks are deployed. We have been awarded contracts by six major service providers including Global Crossing, Intermedia Communications, Qwest Communications, Time Warner Telecom, Williams Communications and XO Communications. Furthermore, by working closely with our customers as they deploy these networks, we will gain valuable knowledge regarding their requirements, positioning us to develop product enhancements and extensions that address evolving service provider needs.

EXPAND AND BROADEN OUR CUSTOMER BASE BY TARGETING SPECIFIC MARKET SEGMENTS. We plan to leverage our early success to penetrate new customer segments. We believe new and incumbent service providers will build the new public network at different rates. Initially, the next-generation service providers, who are relatively unencumbered by legacy equipment, will be the most likely first purchasers of our equipment and software, as they compete aggressively with the incumbent service providers. Other newer entrants, such as competitive local exchange carriers, or CLECs, and Internet service providers, or ISPs, are also likely to be early adopters of our products. As competitive service providers achieve greater market presence and leverage the lower costs and advanced services inherent in packet-switching technology, we believe incumbents including interexchange carriers, Regional Bell Operating Companies and international PTTs will face further competitive pressure, increasing the likelihood that, and the pace at which, they will adopt these new technologies.

EXPAND OUR GLOBAL SALES, MARKETING, SUPPORT AND DISTRIBUTION CAPABILITIES. Becoming the primary supplier of voice infrastructure for the new public network will require a strong worldwide presence. We are rapidly expanding our sales, marketing, support and distribution capabilities to address this need. We have recently opened regional sales offices in the United States, Singapore, Germany and France and a European headquarters in the United Kingdom. In addition, we plan to augment our global direct sales effort with international distribution partners. As a carrier-class solution provider, we are making a significant investment in professional services and customer support.

GROW OUR BASE OF SOFTWARE APPLICATIONS AND DEVELOPMENT PARTNERS. We have established and promote programs that bring together a broad range of development partners to provide our customers with a variety of advanced services, application options and interoperability research. These alliances include more than one hundred member companies that are enabling new IP-based enhanced services, call processing, billing, provisioning, network management and operations systems or providing equipment or software for the new public network. Our Open Services Partner Alliance, or OSPA, is focused on application options, advanced services, and interoperability through work with leading vendors in a testing laboratory. Our OSPA partners include companies such as 3Com, Agilent Technologies, Cisco Systems, Ericsson, Lucent Technologies, Priority Call Management, Redback, Tellabs and Ulticom. We plan to expand our complementary partner programs to maximize the services available to our customers and speed their time to market.

LEVERAGE OUR TECHNOLOGY PLATFORM FROM THE CORE OF THE NETWORK OUT TO THE ACCESS EDGE. Our robust and sophisticated technology platform has been designed to operate at the heart of the largest networks in the world. From this fundamental position in the trunking infrastructure, we are extending our reach by moving outward to the access segments of the network. For example, we are shipping our System 9200 Internet offload solution, a turnkey product that gives service providers a cost effective means to manage Internet data traffic. Furthermore, with the addition of the INtelligentIP softswitch to our product offerings, we are expanding into the high-growth business and residential access markets. This approach will allow our customers to design and execute a coordinated migration and expansion strategy as they build entirely new networks or transition from their legacy circuit-switched infrastructure.

ACTIVELY CONTRIBUTE TO THE STANDARDS DEFINITION AND ADOPTION PROCESS. To advance our technology and market leadership, we will continue to actively lead and contribute to standards bodies such as the International Softswitch Consortium, the Internet Engineering Task Force and the International Telecommunications Union. The definition of standards for the new public network is in an early stage and we intend to drive these standards to meet the requirements for an open, accessible, scalable and powerful new public network infrastructure.

PURSUE STRATEGIC ACQUISITIONS AND ALLIANCES. As with our recent acquisition of TTI, we intend to expand our products and services through selected acquisitions and alliances. These may include acquisitions of complementary products, technologies and businesses that further enhance our technology leadership or product breadth. We also believe that allying with companies providing complementary products or services for the new public network will enable us to bring greater value to our customers and extend our lead over potential competitors.

SONUS PRODUCTS

GSX9000 OPEN SERVICES SWITCH

The Sonus GSX9000 Open Services Switch enables voice traffic to be transported over packet networks. Its carrier-class hardware, which is NEBS Level 3 compliant and designed to provide 99.999% availability with no single point of failure, offers optional full redundancy and full hot-swap capability. It is powered from -48VDC sources standard in central offices and attaches to the central office timing network. The basic building block of a GSX9000 is a shelf. Each shelf is 28" high, mounts in a standard 19" or 23" rack and provides 16 slots for server and adapter modules. The first 2 slots are reserved for management modules, while the other 14 slots may be used for any mix of other module types. It supports the following interfaces:

[Diagram depicting a large box. Detail on the face includes the Sonus logo in the upper left corner and a set of vertical slots.]

- - T1;
- - T3;
- - E1;
- - OC3;
- - 100BaseT; and
- - OC12c/STM-4.

The GSX9000 is designed to deliver voice quality equal, or superior, to that of the public network. It is designed to support the G.711 approach used in circuit switches and will deliver a number of other voice compression algorithms. It also is designed to provide world-class echo cancellation, conforming to the latest G.168 standard, on every circuit port. It automatically disables echo cancellation when it detects a modem signal. The GSX9000 is also designed to minimize delay, further enhancing perceived voice quality. The GSX9000 scales to the very large configurations required by major carriers. A single

GSX9000 shelf can support up to 8,064 simultaneous calls. A single GSX9000, consisting of multiple shelves, can support 100,000 or more simultaneous calls. The GSX9000 is designed to operate with our PSX6000 SoftSwitch, our INtelligentIP softswitch and with softswitches and network products offered by other vendors.

SOFTSWITCHES

Softswitches provide the network intelligence in next-generation networks, including call control, signaling, core network routing and a management foundation. We provide carriers with a comprehensive softswitch solution. Our PSX6000 SoftSwitch, designed for deployment in the core of carrier networks, delivers the levels of scalability, performance and reliability required by major service providers. Our INtelligentIP softswitch emphasizes interoperability and services at the access edge of the network. Our softswitch solutions offer a powerful platform providing broad interoperability with other components of the network, including access devices, media gateways and other softswitches.

Depending on the network application and equipment configuration, service providers may choose to deploy the PSX6000 SoftSwitch, the INtelligentIP softswitch, or both in their networks. This combination of softswitch offerings gives service providers broad control over intelligence in the new public network.

We believe that in addition to traditional voice services, our softswitches will enable service providers to offer differentiated, value-added features and services to their customers, including:

- follow-me anywhere communication, which is the ability to route a subscriber's email, phone and Web services to any location;

- unified messaging that integrates telephone services, email and Web applications, and allows subscribers to have a unified mailbox for email, voicemail and message filtering;

- conference calling across the Internet;

- multimedia conferencing;

- Internet-enabled call centers; and

- Internet content delivered with voice.

PSX6000 SOFTSWITCH. The Sonus PSX6000 SoftSwitch controls the operation of the GSX9000. It contains the service provider's specifications of the features to be used for each subscriber or group of subscribers, the available services and when to provide them and the policies for routing calls across the packet core. The PSX6000 does not handle voice calls directly; instead, it controls a GSX9000 to implement the necessary services. The PSX6000 supports a broad range of carrier switching requirements and provides a platform upon which new services can be easily and quickly created and implemented. It allows carriers to deploy a circuit-switched, packet or converged circuit/packet infrastructure with the capacity, reliability and intelligence that they require. Functions such as provisioning, service selection and routing can be centralized in a small number of PSX6000 SoftSwitches.

The PSX6000 can reside in a wide range of standard hardware platforms to fit any size network. It may be replicated as required for high availability or to support very high call processing requirements. The service provider can designate a primary softswitch to control each GSX9000 gateway. In case of a failure of the primary PSX6000, the GSX9000 will transparently transfer control to another PSX6000 without affecting calls.

We believe the PSX6000 has the flexibility to support the requirements of the full range of service providers. Typical applications include Internet offload, PRI switching, domestic and international direct dial, business direct access, virtual private networks and toll/tandem switching. The PSX6000 also facilitates new applications and services, integrating enhanced applications on IP-based platforms similar to Internet Web servers.

INTELLIGENTIP SOFTSWITCH. The INtelligentIP softswitch was designed with an open architecture, enabling integration of new applications from us and various third-party providers within both existing and next generation voice and data networks. The INtelligentIP softswitch resides on standard hardware platforms and can control a number of different types of media gateways. Consequently, the INtelligentIP softswitch supports a broad range of carrier services, including the services required to support both circuit-based and packet-based networks and provides a platform upon which new value-added services can be created and implemented.

The architecture of our INtelligentIP softswitch allows for interoperability with existing circuit-based telephony networks. This interoperability enables service providers to rapidly deploy new, next generation networks and services while maximizing their existing network investment.

Through our Open Services Partner Alliance (OSPA) vendors achieve interoperability with our products quickly and efficiently, allowing those vendors, as well as service and network providers, to reduce the time to deploy new services. This partner program also allows network and service providers to select from a list of vendors that are Sonus Powered. We believe that this flexibility allows those service and network providers a choice of solutions and value-added services, and enables them to achieve differentiation through an integrated suite of "best-of-breed" solutions, rather than having to rely on a single vendor's products, timeframes and decisions.

SGX2000 SS7 SIGNALING GATEWAY

The Sonus SGX2000 SS7 Signaling Gateway offers carriers a comprehensive and cost-effective SS7 signaling solution that provides interconnection between the traditional public telephone network and elements of our Open Services Architecture. With the SGX2000, existing public telephone network voice switches can interact with the Sonus GSX9000 using the same signaling methods they would use with other circuit switches. This compatibility means that carriers can preserve their existing investment in infrastructure and can offer their customers the full range of normal public telephone network services, such as 800 services and 1+ dialing in the new public network.

The SGX2000 also supports full access to SS7 service control points. Using the SGX2000, our products gain access to signal control processor-based applications such as 800 number translation and local number portability. This support allows service providers to preserve their application investment and ensure compatibility between applications common to both circuit and packet voice services. The SGX2000 supports up to 64 A-links to the SS7 network and transports the SS7 messages to other network devices using IP protocols. The SGX2000 can be deployed in a redundant configuration, providing the performance and high availability required of a carrier-class SS7 solution.

SYSTEM 9200

The Sonus System 9200 Internet offload solution is a turnkey product that allows local service providers, including CLECs and ISPs, to more effectively handle the rapidly increasing amount of modem-originated Internet traffic traversing voice networks. The System 9200 is designed to divert Internet traffic from expensive circuit switches as calls enter the network, enabling service providers to improve network performance and significantly reduce network operating costs.

The System 9200 utilizes the technology delivered in the GSX9000, PSX6000, INtelligentIP softswitch and SGX2000 to provide a smooth migration to packetized voice and data transport.

CUSTOMER SUPPORT AND PROFESSIONAL SERVICES

We believe our comprehensive technical customer support and professional services capabilities are an important element of our solution for customers. These services cover the full network lifecycle: planning; design; installation; and operations. We help our customers create or revise their business plans and design their networks and also provide the following:

- turnkey network installation services;

- system integration and testing;

- 24-hour technical support; and

- educational services to customer personnel on the installation, operation and maintenance of our equipment.

We have established a technical assistance center at our headquarters in Westford, Massachusetts. The technical assistance center provides customers with periodic updates to our software and product documentation. We offer our customers a variety of service plans.

A key differentiator of our support activities is our professional services group, many members of which hold advanced technical degrees in electrical engineering or related disciplines. We offer a broad range of professional services, including sophisticated network deployment, assistance with logistics and project management support. We also maintain a customer support laboratory in which customers can test the utility of our products for their specific applications and in which they can gain an understanding of the applications enabled by the converged network. Our approach to professional services is designed to ensure that our products are integrated into our customers' networks to meet their specific needs and that these customers realize the maximum value from their networking technology investments. As of January 31, 2001, our customer support and professional services organization consisted of 107 employees.

CUSTOMERS

Our target customer base includes long distance carriers, local exchange carriers, ISPs, cable operators, international telephone companies and carriers that provide services to other carriers. We have shipped products to customers including: Global Crossing, Intermedia Communications, Qwest Communications, Time Warner Telecom, Williams Communications and XO Communications. For the year ended December 31, 2000, Global Crossing, Intermedia and Time Warner Telecom each contributed more than 10% of our revenues and collectively represented an aggregate of 70% of our total revenues. Currently, some of our customers are using our products in laboratory testing and internal trials, while others have deployed our products in their commercial networks.

SALES AND MARKETING

We sell our products principally through a direct sales force and, in some markets, through distributors and resellers, including Nissho Electronics Corporation and Samsung Corporation. In addition, we intend to establish relationships with selected original equipment manufacturers and other marketing partners in order to serve particular markets or geographies and provide our customers with opportunities to purchase our products in combination with related services and products. As of January 31, 2001, our sales and marketing organization consisted of 105 employees, of which 18 were located in Westford and Littleton, Massachusetts and 87 were located in sales and support offices around the world.

RESEARCH AND DEVELOPMENT

We believe that strong product development capabilities are essential to our strategy of enhancing our core technology, developing additional applications, incorporating that technology into new products and maintaining the comprehensiveness of our product and service offerings. Our research and development process is driven by the availability of new technology, market data and customer feedback. We have invested significant time and resources in creating a structured process for undertaking all product development projects.

We have assembled a team of highly skilled engineers with significant telecommunications and networking industry experience. Our engineers have experience in, and have been drawn from, leading computer data networking, telecommunications and multimedia companies. As of January 31, 2001, we had 344 employees responsible for research and development, of which 310 were software and quality assurance engineers and 34 were hardware engineers. Our engineering effort is focused on new applications and network access features, new network interfaces, improved scalability, interoperability, quality, reliability and next generation technologies. We currently maintain United States research and development offices in New Jersey, Massachusetts and Texas and have an office in the United Kingdom. In addition, we have a joint development effort in Japan with Nissho Electronics Corp. and NTT Communicationware Corp., a wholly owned subsidiary of NTT, the world's largest carrier.

We have made, and intend to continue to make, a substantial investment in research and development. Research and development expenses, excluding those of TTI, were $299,000 for the period from inception on August 7, 1997 to December 31, 1997, $5.8 million for the year ended December 31, 1998, $10.8 million for the year ended December 31, 1999 and $26.4 million for the year ended December 31, 2000.

COMPETITION

The market for voice infrastructure products for the new public network is intensely competitive, subject to rapid technological change and significantly affected by new product introductions and other market activities of industry participants. We expect competition to persist and intensify in the future. Our primary sources of competition include vendors of networking and telecommunications equipment, such as Cisco Systems, Lucent Technologies, Nortel Networks and Tellabs. These competitors have significantly greater financial resources than we do and are able to devote greater resources to the development, promotion, sale and support of their products. In addition, these competitors have more extensive customer bases and broader customer relationships than we do, including relationships with our potential customers. Numerous smaller and mostly private companies, including Convergent Networks, Unisphere Networks and others, are also focusing on similar market opportunities.

In order to compete effectively, we must deliver innovative products that:

- provide extremely high network 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; and

- provide a cost-effective and space-efficient solution for service providers.

In addition, we believe that the ability to provide vendor-sponsored financing, which some of our competitors currently offer, is an important competitive factor in our market.

INTELLECTUAL PROPERTY

Our success and ability to compete are dependent on our ability to develop and maintain our technology and operate without infringing on the proprietary rights of others. We rely on a combination of patent, trademark, trade secret and copyright law and contractual restrictions to protect the proprietary aspects of our technology. These legal protections afford only limited protection for our technology. We presently hold one patent, and have twelve patent applications pending, in the United States. In addition, we have two patent applications pending abroad. We can't be certain that patents will be granted based on these pending applications. We seek to protect our intellectual property by:

- protecting our source code for our software, documentation and other written materials under trade secret and copyright laws;

- licensing our software pursuant to signed license agreements, which impose restrictions on others' ability to use our software; and

- seeking to limit disclosure of our intellectual property by requiring employees and consultants with access to our proprietary information to execute confidentiality agreements.

Due to rapid technological change, we believe that factors such as the technological and creative skills of our personnel, new product developments and enhancements to existing products are more important than the various legal protections of our technology to establishing and maintaining technology leadership.

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.

MANUFACTURING

Currently, we outsource the manufacturing of our products. Our contract manufacturers provide comprehensive manufacturing services, including assembly of our products and procurement of materials on our behalf. We perform final test and assembly at our facility to ensure that we meet our internal and external quality standards. We believe that outsourcing our manufacturing will enable us to conserve working capital, better adjust manufacturing volumes to meet changes in demand and more quickly deliver products. At present, we purchase products from our outside contract manufacturers on a purchase order basis. We may not be able to enter into long-term contracts with outside manufacturers on terms acceptable to us, if at all. As of January 31, 2001, we had 52 employees responsible for manufacturing, final testing and assembly.

EMPLOYEES

As of January 31, 2001, we had a total of 656 employees, including 344 in research and development, 105 in sales and marketing, 107 in customer support and professional services, 52 in manufacturing and 48 in finance and administration. Our employees are not represented by any collective bargaining unit. We believe our relations with our employees are good.

ITEM 2. PROPERTIES.

Our headquarters are located in a leased facility in Westford, Massachusetts, consisting of 90,000 square feet under leases that expire in 2004. We have additional facilities in Littleton, Massachusetts, consisting of 42,000 square feet under subleases that expire in 2004, and in Richardson, Texas, consisting of 49,000 square feet under a lease that expires in March 2003. We expect to relocate our Texas office to a new facility in Richardson in 2001, consisting of 110,000 square feet, under a seven-year lease with our existing lessor. We also lease short-term office space in Colorado, Oklahoma, New Jersey, the United Kingdom and Singapore. We believe our existing facilities are adequate for our current needs and that suitable additional space will be available as needed.

ITEM 3. LEGAL PROCEEDINGS.

We are not currently a party to any material litigation.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS.

Our common stock has been quoted on the Nasdaq National Market under the symbol "SONS" since May 25, 2000. Prior to that time, there was no public market for the common stock. The following table sets forth, for the time periods indicated, the high and low sales prices of the common stock as reported on the Nasdaq National Market. We have never declared or paid cash dividends and have no present intention to pay cash dividends in the foreseeable future. At February 15, 2001, there were approximately 650 holders of record of our common stock.

	HIGH	LOW
FISCAL 2000:		
Second quarter (since May 25, 2000)	$56.65	$10.67
Third quarter	$93.67	$38.50
Fourth quarter	$49.00	$18.50

On October 6, 2000, Sonus effected a three-for-one stock split in the form of a stock dividend to each stockholder of record. All stock information has been retroactively adjusted to reflect the stock split.

In May 2000, Sonus completed its initial public offering of 17,250,000 shares of common stock, which includes the exercise of the underwriters' over-allotment option of 2,250,000 shares, at $7.67 per share. The IPO generated net proceeds of $121,705,000, after deducting the underwriting discount and commissions and offering expenses of $10,545,000.

ITEM 6. SELECTED FINANCIAL DATA.

The following selected consolidated financial data of Sonus should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes to those statements included elsewhere in this report.

	PERIOD FROM INCEPTION (AUGUST 7, 1997) TO DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1998	1999	2000
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
CONSOLIDATED STATEMENT OF OPERATIONS DATA:				
Revenues	$ --	$ --	$ --	$ 51,770
Manufacturing and product costs (1)	--	--	1,861	27,848
Gross profit (loss)	--	--	(1,861)	23,922
Operating expenses:				
Research and development (1)	299	5,824	10,780	26,430
Sales and marketing (1)	--	426	5,606	21,569
General and administrative (1)	187	919	1,723	5,477
Stock-based compensation	--	59	4,404	26,729
Total operating expenses	486	7,228	22,513	80,205
Loss from operations	(486)	(7,228)	(24,374)	(56,283)
Interest income (expense), net	25	314	487	6,245
Net loss	(461)	(6,914)	(23,887)	(50,038)
Beneficial conversion feature of Series C preferred stock	--	--	(2,500)	--
Net loss applicable to common stockholders	$ (461)	$(6,914)	$(26,387)	$(50,038)
Net loss per share (2):				
Basic and diluted	$ --	$(1.42)	$(1.84)	$(0.52)
Pro forma basic and diluted			(0.25)	(0.37)
Shares used in computing net loss per share (2):				
Basic and diluted	--	4,858	14,324	95,877
Pro forma basic and diluted			96,188	135,057

	DECEMBER 31, 1997	1998	1999	2000
	(IN THOUSANDS)			
CONSOLIDATED BALANCE SHEET DATA:				
Cash, cash equivalents and marketable securities	$6,606	$16,501	$ 23,566	$142,065
Working capital	6,308	15,321	19,604	135,597
Total assets	6,987	18,416	30,782	194,835
Long-term obligations, less current portion	6	1,220	3,402	--
Redeemable convertible preferred stock	7,100	22,951	46,109	--
Total stockholders' equity (deficit)	(447)	(7,097)	(25,199)	150,706

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(FOOTNOTES ON FOLLOWING PAGE)

(1) Excludes non-cash, stock-based compensation expense as follows:

	YEAR ENDED DECEMBER 31,		
	1998	1999	2000
	(IN THOUSANDS)		
Manufacturing and product costs	$ --	$ 92	$ 404
Research and development	29	1,537	11,428
Sales and marketing	12	2,104	12,051
General and administrative	18	671	2,846
	$ 59	$4,404	$26,729

(2) See note (1)(o) to our consolidated financial statements for an explanation of the method of calculation. Pro forma per share calculation reflects the conversion of all outstanding shares of Series A, Series B, Series C and Series D redeemable convertible preferred stock into shares of common stock which occurred upon the closing of our initial public offering in May 2000, as if the conversion occurred at the date of original issuance.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH OUR CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO THOSE STATEMENTS AND OTHER FINANCIAL INFORMATION APPEARING ELSEWHERE IN THIS REPORT. THE FOLLOWING DISCUSSION CONTAINS FORWARD-LOOKING INFORMATION THAT INVOLVES RISKS AND UNCERTAINTIES. OUR ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THE FORWARD-LOOKING STATEMENTS AS A RESULT OF A NUMBER OF FACTORS, INCLUDING THE RISKS DISCUSSED IN "RISK FACTORS" AND ELSEWHERE IN THIS REPORT.

OVERVIEW

Sonus is a leading provider of voice infrastructure products for the new public network. We offer a new generation of carrier-class switching equipment and software that enable voice services to be delivered over packet-based networks.

Since our inception, we have incurred significant losses and, as of December 31, 2000, had an accumulated deficit of $84.0 million. We have not achieved profitability on a quarterly or an annual basis and anticipate that we will continue to incur net losses. We have a lengthy sales cycle for our products and, accordingly, we expect to incur sales and other expenses before we realize the related revenues. We expect to incur significant sales and marketing, research and development, general and administrative and non-cash expenses and, as a result, we will need to generate significant revenues to achieve and maintain profitability.

We sell our products principally through a direct sales force and, in some markets, through distributors and resellers. In the future, we anticipate expanding our sales efforts to include additional overseas distribution partners. 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. We believe these long sales cycles, as well as our expectation that customers will tend to sporadically place large orders with short lead times, will cause our revenues and results of operations to vary significantly and unexpectedly from quarter to quarter. We expect to recognize revenues from a limited number of customers for the foreseeable future.

In November 1999, we began shipping our products and recognized initial revenues in the first quarter of 2000. For the year ended December 31, 2000, we recognized $51.8 million in revenue. As of December 31, 2000 we had a total of $14.5 million in deferred revenue. See note 1(g) to our consolidated financial statements.

ACQUISITION OF TELECOM TECHNOLOGIES, INC.

On January 18, 2001, we acquired TTI. Upon the closing of this acquisition, we issued an aggregate of 10,800,000 shares of common stock in exchange for all outstanding capital stock of TTI. Of the 10,800,000 shares issued to the TTI shareholders, 1,200,000 shares were placed into escrow as security for indemnity obligations under the merger agreement, and will be released to TTI shareholders upon expiration of those indemnity obligations, expected to be on the first anniversary of the closing date. In addition, TTI shareholders will have the right to receive an aggregate of 4,200,000 additional shares of common stock which have been placed in escrow in the event that TTI achieves certain specified business expansion and product development milestones from time to time prior to December 31, 2002. In connection with our acquisition of TTI, we adopted our 2000 Retention Plan and agreed to issue up to 3,000,000 shares of common stock under this plan to certain employees of TTI who became employees of Sonus, which are subject to vesting and completion of milestones.

We intend to account for the acquisition as a purchase for financial reporting purposes. The purchase price will be allocated to TTI's assets and liabilities based on the fair values of the assets acquired and the liabilities assumed. Any excess of the purchase price over the fair value of the net tangible assets and identifiable intangible assets acquired will be classified as goodwill. In addition, a portion of the purchase price will be allocated to in-process research and development. Goodwill and other intangibles are expected to be amortized by charges to operations over their estimated useful lives of three to four years and in-process research and development will be charged to operations at the time of closing. Sonus expects to record stock-based compensation relating to the issuance of awards under our 2000 Retention Plan. The amount of charges for stock-based compensation, in-process research and development and amortization of goodwill and other intangibles will be significant and will therefore have a material negative impact on the combined company's future operating results. See notes 2 and 10(h) to our consolidated financial statements.

Over our next several quarters the sources from which TTI has historically derived revenue are expected to decline significantly as we shift TTI's focus to the development and deployment of the INtelligentIP softswitch product. In addition, as a result of TTI's sale of its network testing software product line, we expect revenues related to these products to decline or cease in 2001. As of December 31, 2000, TTI had not recognized any revenue on its INtelligentIP softswitch, but had shipped the softswitch to customers who are currently using it in laboratory testing and internal trials.

RESULTS OF OPERATIONS

The following discussion of our results of operations relates solely to Sonus and does not include any financial information of TTI, unless otherwise specified.

REVENUES. We recognize revenue from product sales to end users, resellers and distributors upon shipment, provided there are no uncertainties regarding acceptance, persuasive evidence of an arrangement exists, the sales price is fixed or determinable and collection of the related receivable is probable. If uncertainties exist, we recognize revenue when those uncertainties are resolved. In multiple element arrangements, in accordance with the Statement of Position 97-2 and 98-9, we use the residual method to recognize revenue when vendor specific objective evidence does not exist for one of the delivered elements in the arrangement. Service revenue is recognized as the services are provided. Revenue from support arrangements is recognized ratably over the term of the support contracts. Amounts collected prior to satisfying the revenue recognition criteria are reflected as deferred revenue. We estimate and record warranty costs at the time of product revenue recognition.

MANUFACTURING AND PRODUCT COSTS. Our manufacturing and product costs consist primarily of amounts paid to third-party manufacturers, manufacturing start-up expenses and manufacturing and professional services personnel and related costs. Commencing in 1999, we outsourced a majority of our manufacturing processes to third-parties. Manufacturing engineering, documentation control, final testing and assembly are performed at our facility.

GROSS PROFIT MARGINS. We believe that our gross profit margins will be affected primarily by the following factors:

- demand for our products and services;

- new product introductions and enhancements both by us and by our competitors;

- product service and support costs associated with initial deployment of our products in customers' networks;

- changes in our pricing policies and those of our competitors;

- the mix of product configurations sold;

- the mix of sales channels through which our products and services are sold; and

- the volume of manufacturing and costs of manufacturing and components.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses consist primarily of salaries and related personnel costs, recruiting expenses and prototype costs related to the design, development, testing and enhancement of our products. We have expensed our research and development costs as incurred. Some aspects of our research and development effort require significant short-term expenditures, the timing of which can cause significant quarterly variability in our expenses. We believe that research and development is critical to our strategic product development objectives and we intend to enhance our technology to meet the changing requirements of our customers. As a result, we expect our research and development expenses to increase in absolute dollars in the future.

SALES AND MARKETING EXPENSES. Sales and marketing expenses consist primarily of salaries and related personnel expenses, commissions, recruiting expenses, promotions, customer evaluations and other marketing expenses. We expect that sales and marketing expenses will increase substantially in absolute dollars in the future as we increase our direct sales efforts, expand our operations internationally, hire additional sales and marketing personnel, initiate additional marketing programs and establish sales offices in new locations.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses consist primarily of salaries and related expenses for executive, finance and administrative personnel, recruiting expenses and professional fees. We expect that general and administrative expenses will increase in absolute dollars as we add personnel and incur additional costs related to the growth of our business and our operation as a public company.

STOCK-BASED COMPENSATION EXPENSES. In connection with our grant of stock options and issuance of restricted common stock during the years ended December 31, 1999 and 2000, we recorded deferred stock-based compensation of $20.9 million and $39.4 million, respectively. Stock-based compensation expenses include the amortization of stock compensation charges resulting from the granting of stock options and sale of restricted common stock to employees with exercise or sales prices that may be deemed for accounting purposes to be below the fair value of our common stock on the date of grant and compensation expense associated with the grant of stock options and issuance of restricted stock to non-employees. Deferred compensation amounts are being amortized over the vesting periods of the applicable options or restricted stock, which are four to five years. The compensation expense associated with non-employees is recorded at the time services are provided.

In connection with the acquisition of TTI, we expect to record deferred stock-based compensation of approximately $22.6 million related to the value for accounting purposes of unvested TTI options assumed by us. We expect to recognize this deferred compensation as an expense over the remaining vesting period of the underlying stock options of up to four years. We expect to record deferred stock-based compensation of approximately $112.1 million for the value of the up to 3,000,000 shares to be awarded under our 2000 Retention Plan, based upon the fair value of our common stock on the date of closing of our acquisition of TTI. This deferred compensation is expected to be expensed ratably over the approximate two-year vesting period of the retention shares and adjusted for changes in the fair value of our common stock on the date the related milestone conditions are satisfied.

Based on the grant of Sonus' stock options and sale of restricted common stock through December 31, 2000, the unvested TTI options assumed by Sonus and the awards under the 2000 Retention Plan, we expect to record approximately $76.0 million, $72.3 million, $14.5 million and $3.6 million in employee stock-based compensation expense in the years ending December 31, 2001, 2002, 2003 and 2004, respectively. See note 10(h) to our consolidated financial statements.

BENEFICIAL CONVERSION OF PREFERRED STOCK. In 1999, we recorded a charge to accumulated deficit of $2.5 million representing the beneficial conversion feature of our Series C redeemable convertible preferred stock that was sold in November and December 1999. This charge is accounted for as a dividend to preferred stockholders and, as a result, will increase the net loss available to common stockholders and the related net loss per share.

YEARS ENDED DECEMBER 31, 1999 AND 2000

REVENUES. Revenues were $51.8 million for the year ended December 31, 2000 as a result of the introduction of our voice infrastructure products. No revenues were reported for the year ended December 31, 1999. Three of our customers, each of whom contributed more than 10% of our revenues during the year ended December 31, 2000, collectively represented an aggregate of 70% of our total revenues.

MANUFACTURING AND PRODUCT COSTS. Manufacturing expenses and product costs were $27.8 million, or 54% of revenues, for the year ended December 31, 2000, an increase of $25.9 million from $1.9 million in 1999. The increase is primarily the result of an increase in product manufacturing and personnel costs associated with revenues recorded in fiscal 2000. We expect manufacturing and product costs to decrease as a percentage of revenues based on product mix changes and improved efficiencies as our revenue increases.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses were $26.4 million in 2000, an increase of $15.6 million, or 145%, from $10.8 million in 1999. The increase reflects costs primarily associated with a significant increase in personnel and personnel-related expenses and, to a lesser extent, prototype and software expenses for the development of our products.

SALES AND MARKETING EXPENSES. Sales and marketing expenses were $21.6 million in 2000, an increase of $16.0 million, or 285%, from $5.6 million in 1999. The increase reflects costs primarily associated with the hiring of additional U.S. and international sales and marketing personnel and the opening of international sales offices and, to a lesser extent, sales commissions, travel-related expenses, marketing program costs, trade shows and product launch activities.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses were $5.5 million in 2000, an increase of $3.8 million, or 218%, from $1.7 million in 1999. The increase reflects the hiring of additional general and administrative personnel and, to a lesser extent, costs associated with being a public company.

STOCK-BASED COMPENSATION EXPENSES. Stock-based compensation expenses were $26.7 million in 2000, an increase of $22.3 million from $4.4 million in 1999. This increase is due to the amortization of deferred stock-based compensation resulting from the granting of additional stock options and sale of restricted common stock to employees and non-employees.

INTEREST INCOME (EXPENSE), NET. Interest income consists of interest earned on our cash balances and marketable securities. Interest expense consists of interest incurred on equipment debt. Interest income, net of interest expense was $6.2 million in 2000, an increase of $5.7 million from $487,000 in 1999. This increase reflects higher invested cash and marketable securities balances as a result of our May 2000 initial public offering and private financings and is partially offset by interest expense from increased borrowings, which were repaid in June 2000.

NET OPERATING LOSS CARRYFORWARDS. As of December 31, 2000, we had approximately $40.0 million of federal net operating loss carryforwards for tax purposes available to offset future taxable income. These net operating loss carryforwards expire at dates through 2020, to the extent that they are not used. We have not recognized any benefit from the future use of loss carryforwards for these periods, or for any other periods since inception. Use of the net operating loss carryforwards may be limited in future years if there is a significant change in our ownership. Management has recorded a full valuation allowance for the related net deferred tax asset due to the uncertainty of realizing the benefit of this asset.

YEARS ENDED DECEMBER 31, 1998 AND 1999

MANUFACTURING EXPENSES. Manufacturing expenses were $1.9 million in 1999, compared to no expense in 1998. The increase was due to the commencement of manufacturing operations.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses were $10.8 million in 1999, an increase of $5.0 million, or 85%, from $5.8 million in 1998. The increase reflects costs primarily associated with a significant increase in personnel and personnel-related expenses and, to a lesser extent, recruiting expenses and prototype expenses for the development of our products.

SALES AND MARKETING EXPENSES. Sales and marketing expenses were $5.6 million in 1999, an increase of $5.2 million from $426,000 in 1998. The increase reflects costs primarily associated with the hiring of additional sales and marketing personnel and, to a lesser extent, marketing program costs, including Web development, trade shows and product launch activities.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses were $1.7 million in 1999, an increase of $804,000, or 87%, from $919,000 in 1998. The increase reflects costs primarily associated with the hiring of additional general and administrative personnel and, to a lesser extent, expenses necessary to support and scale our operations.

STOCK-BASED COMPENSATION EXPENSES. Stock-based compensation expenses were $4.4 million in 1999, an increase of $4.3 million, from $59,000 in 1998. The increase is due to the amortization of deferred stock-based compensation resulting from the granting of stock options and sale of restricted common stock to employees with exercise or sales prices below the deemed fair value of our common stock on the date of grant or sale for accounting purposes.

INTEREST INCOME (EXPENSE), NET. Interest income, net of interest expense was $487,000 and $314,000 for 1999 and 1998, respectively. This increase reflects higher invested balances partially offset by an increase in interest expense from increased borrowings.

LIQUIDITY AND CAPITAL RESOURCES

Prior to our initial public offering, we financed our operations primarily through private sales of redeemable convertible preferred stock totaling $70.7 million in net proceeds. Upon the closing of our initial public offering on May 31, 2000, we received cash proceeds, net of the underwriting discount and offering expenses, totaling $121.7 million, and all of our redeemable convertible preferred stock converted into 96,957,222 shares of common stock. At December 31, 2000 cash, cash equivalents and marketable securities totaled $142.1 million.

Net cash used in operating activities was $14.4 million for the year ended December 31, 2000, as compared to $16.0 million for the year ended December 31, 1999. The decrease reflects increased net losses, inventory purchases and accounts receivable offset by increased non-cash charges for stock-based compensation and depreciation, and increases in accounts payable, accrued expenses and deferred revenue.

Net cash used in investing activities was $55.8 million for the year ended December 31, 2000, as compared to $6.4 million for the year ended December 31, 1999. Net cash used in investing activities for the year ended December 31, 2000 primarily reflects net purchases of marketable securities of $40.3 million and purchases of property and equipment, primarily computers and test equipment for our development and manufacturing activities of $14.8 million. We expect capital expenditures to continue to increase in the year 2001 to approximately $30.0 million, due to our expansion, our acquisition of TTI and expenditures for software licenses, computers and test equipment.

Net cash provided by financing activities was $148.4 million for the year ended December 31, 2000, as compared to $27.6 million for the year ended December 31, 1999. The increase was primarily a result of the net cash proceeds from our initial public offering partially offset by repayment of long-term obligations.

We believe our current cash and cash equivalents will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least 12 months. In connection with our acquisition of TTI, we expect to make cash expenditures of up to approximately $20.0 million during fiscal 2001 for transaction-related expenses, consisting primarily of professional fees and the full repayment of TTI's bank debt. If our existing resources and cash generated from operations are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or debt securities. The sale of additional equity or convertible debt securities could result in additional dilution to our stockholders, and we cannot be certain that additional financing will be available in amounts or on terms acceptable to us, if at all. If we are unable to obtain this additional financing, we may be required to reduce the scope of our planned product development and sales and marketing efforts, which could harm our business, financial condition and operating results.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS. This bulletin established guidelines for revenue recognition. Our revenue recognition policy complies with this pronouncement.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, ACCOUNTING FOR DERIVATIVES AND HEDGING ACTIVITIES, as amended by SFAS No. 138, which establishes accounting and reporting standards for derivative instruments, including derivative instruments embedded in other contracts, and for hedging activities. We do not currently engage in trading market risk sensitive instruments, purchase hedging instruments or "other than trading" instruments that are likely to expose us to market risk, whether interest rate, foreign currency exchange, commodity price or equity price risk. We may do so in the future as our operations expand domestically and abroad. We will evaluate the impact of foreign currency exchange risk and other derivative instrument risk on our results of operations when appropriate. We will adopt SFAS No. 133 as required by SFAS No. 137, DEFERRAL OF THE EFFECTIVE DATE OF FASB STATEMENT NO. 133, in fiscal year 2001. The adoption of SFAS No. 133 is not expected to have a material impact on our financial condition or results of operations.

In March 2000, the FASB issued Interpretation No. 44, ACCOUNTING FOR CERTAIN TRANSACTIONS INVOLVING STOCK COMPENSATION--AN INTERPRETATION OF ACCOUNTING PRINCIPLES BOARD OPINION NO. 25, which clarifies the application of APB Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES, in certain situations, as defined. Interpretation No. 44 is effective July 1, 2000, but is retroactive for specified events occurring after December 15, 1998. Interpretation No. 44 does not have a material impact on our financial condition or results of operations.

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 REVENUES WILL BE GENERATED FROM A LIMITED NUMBER OF CUSTOMERS AND OUR REVENUES WILL NOT GROW IF WE DO NOT SUCCESSFULLY SELL PRODUCTS TO THESE CUSTOMERS.

To date, we have shipped our products to a limited number of customers and only during the first quarter of fiscal 2000 did we begin to recognize revenues. We expect that in the foreseeable future, substantially all of our revenues will depend on sales of our products to a limited number of customers. For example, for the year ended December 31, 2000, three customers each contributed more than 10% of our revenues and collectively represented an aggregate of 70% of our total revenues. The customers to whom we have shipped products are currently using our products in laboratory testing or internal trials or have deployed our products in their commercial networks. Our customers may not, or may not continue to, deploy our products in their commercial networks on a timely basis, or at all, and any delay or failure by our customers to introduce commercial services based on our products, or a downturn in their business, would seriously harm our ability to sell products and generate revenues.

WE WILL NOT BE SUCCESSFUL IF WE DO NOT GROW OUR CUSTOMER BASE.

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:

- customer unwillingness to implement our new voice infrastructure products;

- any delays or difficulties that we may incur in completing the development and introduction of our planned products or product enhancements;

- new product introductions by our competitors;

- any failure of our products to perform as expected; or

- any difficulty we may incur in meeting customers' delivery requirements.

If we do not expand our customer base to include additional customers that deploy our products in operational commercial networks, our revenues will not grow significantly, or at all.

THE MARKET FOR VOICE INFRASTRUCTURE PRODUCTS FOR THE NEW PUBLIC NETWORK IS NEW AND EVOLVING AND OUR BUSINESS WILL SUFFER IF IT DOES NOT DEVELOP AS WE EXPECT.

The market for our products is rapidly evolving. Packet-based technology may not be widely accepted as a platform for voice and a viable market for our products may not develop or 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 volumes, or at all.

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.

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.

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.

IF WE DO NOT RESPOND RAPIDLY TO TECHNOLOGICAL CHANGES OR TO CHANGES IN INDUSTRY STANDARDS, OUR PRODUCTS COULD BECOME OBSOLETE.

The market for voice infrastructure products for the new public network 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.

WE DEPEND UPON CONTRACT MANUFACTURERS AND ANY DISRUPTION IN THESE RELATIONSHIPS MAY CAUSE US TO FAIL TO MEET THE DEMANDS OF OUR CUSTOMERS AND DAMAGE OUR CUSTOMER RELATIONSHIPS.

We rely on a small number of contract manufacturers to manufacture our products according to our specifications and to fill orders on a timely basis. Our contract manufacturers provide comprehensive manufacturing services, including assembly of our products and procurement of materials. Each of our contract manufacturers 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 long-term supply contracts with our manufacturers and they are not 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 HAVE BEEN IN BUSINESS FOR A SHORT PERIOD OF TIME AND YOUR BASIS FOR EVALUATING US IS LIMITED.

We were founded in August 1997, and only during the first quarter of fiscal 2000 did we begin to recognize any revenues. We have a limited meaningful operating history upon which you may evaluate us and our prospects. Moreover, we cannot be sure that we have accurately identified all of the risks to our business. Also, our assessment of the prospects for our success may prove inaccurate.

THE UNPREDICTABILITY OF OUR QUARTERLY RESULTS MAY ADVERSELY AFFECT THE TRADING PRICE OF OUR COMMON STOCK.

Our revenues and operating results will 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 results include the following:

- fluctuation in demand for our voice infrastructure products and the timing and size of customer orders;

- the length and variability of the sales cycle for our products and the corresponding timing of recognizing or deferring revenues;

- new product introductions and enhancements by our competitors and 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; and

- general economic conditions, as well as those specific to the telecommunications, networking and related industries and other factors.

As with other telecommunications product suppliers, we may recognize a substantial portion of our revenue in a given quarter from sales booked and shipped in the last weeks of that quarter. As a result, a delay in customer orders is likely to result in a delay in shipments and recognition of revenue beyond the end of a given quarter, which would have a significant impact on our operating results for that quarter.

Our operating expenses are largely based on anticipated organizational growth and revenue trends. As a result, a delay in generating or recognizing revenues for the reasons set forth above, or for any other reason, could cause significant variations in our operating results. 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. In this event, the price of our common stock will probably substantially decrease.

WE MAY NOT BECOME PROFITABLE.

We have incurred significant losses since inception and expect to continue to incur losses in the future. As of December 31, 2000, we had an accumulated deficit of $84.0 million and had only recognized cumulative revenues since inception of $51.8 million through December 31, 2000. We have not achieved profitability on a quarterly or annual basis. As a result of our acquisition of TTI, we expect to incur significant expenses for stock-based compensation, in-process research and development and amortization of goodwill and other intangibles, which will make achieving profitability more difficult in the near to mid-term.

Our revenues may not grow and we may never generate sufficient revenues to achieve or sustain profitability. We expect to continue to incur significant and increasing sales and marketing, product development, administrative and other expenses. As a result, we will need to generate significant revenues to achieve and maintain profitability.

WE WILL NOT RETAIN CUSTOMERS OR ATTRACT NEW CUSTOMERS IF WE DO NOT ANTICIPATE AND MEET SPECIFIC CUSTOMER REQUIREMENTS OR IF OUR PRODUCTS DO NOT INTEROPERATE WITH OUR CUSTOMERS' EXISTING NETWORKS.

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.

IF WE FAIL TO COMPETE SUCCESSFULLY, OUR ABILITY TO INCREASE OUR REVENUES OR ACHIEVE PROFITABILITY WILL BE IMPAIRED.

Competition in the telecommunications market is intense. This market has historically been dominated by large companies, such as Lucent Technologies and Nortel Networks, both of whom are our direct competitors. We also face competition from other large telecommunications and networking companies, including Cisco Systems and Tellabs, that have entered our market by acquiring companies that design competing products. In addition, a number of smaller and mostly private companies, including Convergent Networks, Unisphere Networks and others, have announced plans for new products that address similar market opportunities that we address. Because this market is rapidly evolving, additional competitors with significant financial resources may enter these markets and further intensify competition.

Many of our current and potential competitors have significantly greater selling and marketing, technical, manufacturing, financial and other resources, including the ability to offer vendor-sponsored financing programs. If we are unable or unwilling to offer vendor-sponsored financing, prospective customers may decide to purchase products from one of our competitors who offers this type of financing. Furthermore, some of our competitors are currently selling significant amounts of other products to our current and prospective customers. 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; and
- provide a cost-effective and space-efficient solution for service providers.

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

WE AND OUR CONTRACT MANUFACTURERS 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 manufacturers 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 requirements, we could have excess inventory, which would increase our costs. If we underestimate our requirements, we may not have 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, our reliance on our suppliers exposes us to potential supplier production difficulties or quality variations. Our customers rely upon our ability to meet committed delivery dates, and any disruption in the supply of key components would seriously impact our ability to meet these dates and could result in legal action by our customers, loss of customers or harm to our ability to attract new customers.

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.

OUR FAILURE TO MANAGE OUR EXPANSION EFFECTIVELY IN A RAPIDLY CHANGING MARKET COULD INCREASE OUR COSTS, HARM OUR ABILITY TO SELL FUTURE PRODUCTS AND IMPAIR OUR FUTURE GROWTH.

We intend to expand our operations rapidly and plan to hire a significant number of employees during 2001. Our growth has placed, and our anticipated growth will continue to place, a significant strain on our management systems and resources. Our ability to successfully offer our products and implement our business plan in a rapidly evolving market requires effective planning and management processes. We expect that we will need to continue to improve our financial, managerial and manufacturing controls and reporting systems, and will need to continue to expand, train and manage our work force worldwide. If we fail to implement adequate control systems in an efficient and timely manner, our costs may be increased and our growth could be impaired and we may not be able to accurately anticipate and fulfill market demand, the result of which will be a loss of revenues and customers.

IF WE FAIL TO HIRE AND RETAIN NEEDED PERSONNEL, THE IMPLEMENTATION OF OUR BUSINESS PLAN COULD SLOW OR OUR FUTURE GROWTH COULD HALT.

Competition for highly skilled engineering, sales, marketing and support personnel is intense because there are a limited number of people available with the necessary technical skills and understanding of our market. Any failure to attract, assimilate or retain qualified personnel to fulfill our current or future needs could impair our growth. The support of our products requires highly trained customer support and professional services personnel. Once we hire them, they may require extensive training in our voice infrastructure products. If we are unable to hire, train and retain our customer support and professional services personnel, we may not be able to increase sales of our products.

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. Most of our officers or key employees are not 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.

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 LITIGATION, 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 may also become involved in litigation as a result of allegations that we infringe the intellectual property rights of others. Any parties asserting that our products infringe upon their proprietary rights would force us to defend ourselves and possibly our customers or contract manufacturers against the alleged infringement. These claims and any resulting lawsuit, if successful, could subject us to significant 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.

ANY INVESTMENTS OR ACQUISITIONS WE MAKE COULD DISRUPT OUR BUSINESS AND SERIOUSLY HARM OUR FINANCIAL CONDITION.

Although we have no current agreements to do so, we intend to consider investing in, or acquiring, complementary products, technologies or businesses. In the event of any additional future investments or acquisitions, we could, and in connection with our recent acquisition of TTI, we did:

- issue stock that would dilute our current stockholders' percentage ownership;

- incur debt or assume liabilities;

- incur significant amortization expenses related to goodwill and other 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, including those associated with our acquisition of TTI, 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; and

- potential loss of key employees, particularly those of the acquired organizations.

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

WE MAY FACE RISKS ASSOCIATED WITH OUR INTERNATIONAL EXPANSION THAT COULD IMPAIR OUR ABILITY TO GROW OUR REVENUES ABROAD.

Our expansion into international markets 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 and distributing 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:

- greater difficulty collecting accounts receivable and longer collection periods;

- 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;

- unexpected changes in regulatory requirements and currency exchange rates;

- certification requirements;

- reduced protection for intellectual property rights in some countries; and

- potentially adverse tax consequences.

IF WE ARE SUBJECT TO UNFAIR HIRING CLAIMS, WE COULD INCUR SUBSTANTIAL COSTS IN DEFENDING OURSELVES.

Companies in our industry whose employees accept positions with competitors frequently claim that their competitors have engaged in unfair hiring practices. We may be subject to claims of this kind in the future as we seek to hire qualified personnel. Those 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. If we are found to have engaged in unfair hiring practices, or our employees are found to have violated agreements with previous employers, we may suffer a significant disruption in our operations.

WE MAY NEED ADDITIONAL CAPITAL IN THE FUTURE, WHICH MAY NOT BE AVAILABLE TO US, AND IF IT IS AVAILABLE, MAY DILUTE OWNERS OF OUR COMMON STOCK.

We may need to raise additional funds through public or private debt or equity financings in order to:

- fund ongoing operations;

- take advantage of opportunities, including more rapid expansion or acquisition of complementary products, technologies or businesses;

- develop new products; or

- respond to competitive pressures.

Any additional capital raised through the sale of equity may dilute an investor's percentage ownership of our common stock. Furthermore, additional financings may not be available on terms favorable to us, or at all. A failure to obtain additional funding could prevent us from making expenditures that may be required to grow or maintain our operations.

OUR STOCK PRICE MAY BE VOLATILE.

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

- loss of any of our major customers;

- the addition or departure of key personnel;

- variations in our quarterly operating results;

- announcements by us or our competitors of significant contracts, new products or product enhancements, acquisitions, distribution partnerships, joint ventures or capital commitments;

- changes in financial estimates by securities analysts;

- sales of common stock or other securities by us or by our stockholders in the future;

- any acquisitions, distribution partnerships, joint ventures or capital commitments;

- changes in market valuations of telecommunications and networking companies; and

- fluctuations in stock market prices and volumes.

In addition, stock markets in general, and the Nasdaq Stock Market and technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of these companies. The trading prices of many technology companies' stocks are substantially above historical levels and may not be sustained. These broad market and industry trends may materially and adversely affect the market price of our common stock, regardless of our actual operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class-action litigation has often been initiated against these companies. Class-action litigation, if initiated, could result in substantial costs and a diversion of management's attention and resources.

SALES OF A SUBSTANTIAL AMOUNT OF OUR COMMON STOCK IN THE FUTURE COULD CAUSE OUR STOCK PRICE TO FALL.

Some stockholders who acquired shares prior to our initial public offering hold a substantial number of shares of our common stock that have not yet been sold in the public market. Sales of a substantial number of shares of our common stock within a short period of time in the future could cause our stock price to fall. In addition, the sale of these shares could impair our ability to raise capital through the sale of debt or additional stock.

INSIDERS HAVE SUBSTANTIAL CONTROL OVER US AND COULD LIMIT YOUR ABILITY TO INFLUENCE THE OUTCOME OF KEY TRANSACTIONS, INCLUDING A CHANGE OF CONTROL.

Our executive officers, directors and entities affiliated with them beneficially own, in the aggregate, approximately 24.9% of our outstanding common stock. These stockholders, if acting together, would be able to influence significantly all matters requiring approval by our stockholders, including the election of directors and the approval of mergers or other business combination transactions. See "Security Ownership of Certain Beneficial Owners and Management."

PROVISIONS OF OUR CHARTER DOCUMENTS AND DELAWARE LAW MAY HAVE ANTI-TAKEOVER EFFECTS THAT COULD PREVENT A CHANGE OF CONTROL.

Provisions of our amended and restated certificate of incorporation, 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.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that involve substantial risks and uncertainties. In some cases you can identify these statements by forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "should," "will," and "would" or similar words. You should read statements that contain these words carefully because they discuss future expectations, contain projections of future results of operations or of financial position or state other "forward-looking" information. The important factors listed above in the section captioned "Risk Factors," as well as any cautionary language in this report, provide examples of risks, uncertainties and events that may cause the actual results of either company to differ materially from the expectations described in these forward-looking statements. You should be aware that the occurrence of the events described in these risk factors and elsewhere in this report could have a material adverse effect on the business, results of operations and financial position of Sonus.

Any forward-looking statements in this report are not guarantees of future performances, and actual results, developments and business decisions may differ from those envisaged by such forward-looking statements, possibly materially. Sonus disclaims any duty to update any forward-looking statements, all of which are expressly qualified by the statements in this section.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

We do not currently use derivative financial instruments. We generally place our marketable security investments in high-quality credit instruments, primarily U.S. Government obligations and corporate obligations with contractual maturities of less than one year. We do not expect any material loss from our marketable security investments and therefore believe that our potential interest rate exposure is not material. To date, sales from our international operations have been made in United States dollars. Accordingly, we have no material exposure to foreign currency rate fluctuations, though we will continue to evaluate the impact of foreign currency exchange risk on our results of operations as we expand internationally.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The consolidated financial statements of Sonus Networks, Inc. are filed as a part of this Annual Report on Form 10-K beginning on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

ITEM 10. DIRECTORS AND OFFICERS OF THE REGISTRANT.

The information required by this Item 10 is incorporated by reference to our definitive Proxy Statement with respect to our 2001 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item 11 is incorporated by reference to our definitive Proxy Statement with respect to our 2001 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by this Item 12 is incorporated by reference to our definitive Proxy Statement with respect to our 2001 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by this Item 13 is incorporated by reference to our definitive Proxy Statement with respect to our 2001 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(A) DOCUMENTS FILED AS PART OF FORM 10-K:

(1) FINANCIAL STATEMENTS.

The following consolidated financial statements and notes thereto included in Item 8 are filed as part of this report:

- Report of Independent Accountants

- Consolidated Balance Sheets

- Consolidated Statements of Operations

- Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)

- Consolidated Statements of Cash Flows

- Notes to Consolidated Financial Statements

(2) FINANCIAL STATEMENT SCHEDULES.

None. All schedules are omitted because they are inapplicable, not required under the instructions or because the information is reflected in the consolidated financial statements or notes thereto.

(3) LIST OF EXHIBITS.

The following is a list of exhibits filed as a part of this registration statement:

EXHIBIT NUMBER	DESCRIPTION
3.1**	Fourth Amended and Restated Certificate of Incorporation of the Registrant.
3.2**	Amended and Restated By-Laws of the Registrant.
4.1**	Form of Stock Certificate representing shares of the Registrant's Common Stock.
9.1***	Voting Agreement, dated as of November 2, 2000, among the Registrant, the Stockholder parties thereto and telecom technologies, inc.
10.1*	Registration Rights Agreement, dated as of November 2, 2000, by and among the Registrant and the Stockholder parties thereto.
10.2*	2000 Retention Plan of the Registrant.
10.3*	telecom technologies, inc. 1998 Amended Equity Incentive Plan.
10.4**	Amended and Restated 1997 Stock Incentive Plan of the Registrant.
10.5**	2000 Employee Stock Purchase Plan of the Registrant.
10.6**	Lease, dated January 21, 1999, as amended, between the Registrant and Glenborough Fund V, Limited Partnership with respect to property located at 5 Carlisle Road, Westford, Massachusetts.
10.7*	Sub-lease, dated October 20, 2000, between the Registrant and Unisphere Networks, Inc. with respect to property located at 5 Carlisle Road, Westford, Massachusetts.
10.8*	Sub-Lease, dated October 20, 2000, between the Registrant and Unisphere Networks, Inc. with respect to property located at 235 Littleton Road, Westford, Massachusetts.
10.9*	Lease, dated September 30, 2000, between the Registrant and BCIA New England Holdings LLC with respect to property located at 25 Porter Road, Littleton, Massachusetts.

EXHIBIT NUMBER	DESCRIPTION
10.10**	Series C Preferred Stock Purchase Agreement, dated as of September 10, 1999, by and among the Registrant and the "Purchaser" parties thereto.
10.11**	Series D Preferred Stock Purchase Agreement, dated as of March 9, 2000, by and among the Registrant and the "Purchaser" parties thereto.
10.12**	Third Amended and Restated Investor Rights Agreement, dated as of March 9, 2000, by and among the Registrant and the "Purchaser" parties thereto.
10.13**	Third Amended and Restated Right of First Refusal and Co-Sale Agreement, dated as of March 9, 2000, among the Registrant and the persons and entities listed on the signature pages thereto.
10.14**	Modification Agreement, dated as of November 29, 1999, by and between the Registrant and Silicon Valley Bank.
10.15**	Agreement of Sublease, dated April 14, 2000, between the Registrant and Unisphere Solutions, Inc. with respect to property located at 25 Porter Road, Littleton, Massachusetts.
10.16**	Promissory Note, dated November 4, 1998, of Hassan M. Ahmed to the Registrant and associated Pledge Agreement.
10.17**	Promissory Note, dated September 1, 1999, of Stephen J. Nill to the Registrant and associated Pledge Agreement.
10.18***	Agreement and Plan of Merger and Reorganization, dated as of November 2, 2000, by and among the Registrant, Storm Merger Sub, Inc. and telecom technologies, inc.
10.19	Employment Agreement, dated November 2, 2000, among telecom technologies, inc., Anousheh Ansari and the Registrant.
10.20	Office Lease Agreement, dated as of November 14, 2000, between telecom technologies, inc. and TR Lookout Partners, Ltd. with respect to property located at 1301 East Lookout Drive, Suite 3000, Richardson, Texas.
10.21	First Amendment to Office Lease Agreement, dated as of January 8, 2001, between telecom technologies, inc. and TR Lookout Partners, Ltd. with respect to property located at 1300 East Lookout Drive, Suite 3000, Richardson, Texas.
21.1	Subsidiaries of the Registrant.

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*   Incorporated by reference to the Registrant's Registration Statement on Form S-4 (file No. 333-52682).

** Incorporated by reference to the Registrant's Registration Statement on Form S-1 (file No. 333-32206).

*** Incorporated by reference to the Registrant's Current Report on Form 8-K, filed November 17, 2000.

(B) REPORTS ON FORM 8-K DURING THE FOURTH QUARTER OF FISCAL 2000:

On October 13, 2000, the Registrant filed a Current Report on Form 8-K in connection with its 3-for-1 stock split.

On November 17, 2000, the Registrant filed a Current Report on Form 8-K in connection with its merger agreement to acquire telecom technologies, inc.

SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the Town of Westford, Commonwealth of Massachusetts, on this 28th day of March, 2001.

SONUS NETWORKS, INC.

By: /s/ HASSAN M. AHMED
Hassan M. Ahmed
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

SIGNATURE	TITLE	DATE
/s/ HASSAN M. AHMED Hassan M. Ahmed	President, Chief Executive Officer and Director (Principal Executive Officer)	March 28, 2001
/s/ STEPHEN J. NILL Stephen J. Nill	Chief Financial Officer, Vice President of Finance and Administration and Treasurer (Principal Financial and Accounting Officer)	March 28, 2001
/s/ RUBIN GRUBER Rubin Gruber	Chairman of the Board of Directors and a Director	March 28, 2001
/s/ EDWARD T. ANDERSON Edward T. Anderson	Director	March 28, 2001
/s/ PAUL J. FERRI Paul J. Ferri	Director	March 28, 2001
/s/ PAUL J. SEVERINO Paul J. Severino	Director	March 28, 2001

SONUS NETWORKS, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
Sonus Networks, Inc.:

We have audited the accompanying consolidated balance sheets of Sonus Networks, Inc. (a Delaware corporation) as of December 31, 1999 and 2000 and the related consolidated statements of operations, redeemable convertible preferred stock and stockholders' equity (deficit) and cash flows for the years ended December 31, 1998, 1999 and 2000. These consolidated financial statements are the responsibility of the Sonus Networks, Inc. management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sonus Networks, Inc. as of December 31, 1999 and 2000, and the results of its operations and its cash flows for the years ended December 31, 1998, 1999 and 2000 in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

Boston, Massachusetts
January 15, 2001
(except with respect to the matters discussed
in Note 2 as to which the date is January 18, 2001)

SONUS NETWORKS, INC.

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

	DECEMBER 31, 1999	DECEMBER 31, 2000
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 8,885	$ 87,108
Marketable securities	14,681	54,957
Accounts receivable, net of allowance of $1,000	--	14,100
Inventories	2,210	20,668
Other current assets	298	2,893
Total current assets	26,074	179,726
PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization	4,269	14,273
OTHER ASSETS, net of accumulated amortization	439	836
	$ 30,782	$194,835
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	$ 1,412	$ 13,439
Accrued expenses	2,691	16,239
Deferred revenue	1,031	14,451
Current portion of long-term obligations	1,336	--
Total current liabilities	6,470	44,129
LONG-TERM OBLIGATIONS, less current portion	3,402	--
COMMITMENTS (Note 8)	--	--
REDEEMABLE CONVERTIBLE PREFERRED STOCK, $0.01 par value; 17,000,000 shares authorized, 12,323,968 shares issued and outstanding at December 31, 1999; no shares authorized, issued and outstanding at December 31, 2000	46,109	--
STOCKHOLDERS' EQUITY (DEFICIT):		
Preferred stock, $0.01 par value 5,000,000 shares authorized, none issued and outstanding	--	--
Common stock, $0.001 par value; 300,000,000 shares authorized, 65,510,921 and 184,244,474 shares issued and 65,510,921 and 183,471,974 shares outstanding at December 31, 1999 and 2000, respectively	66	184
Capital in excess of par value	25,567	266,488
Accumulated deficit	(33,882)	(83,966)
Stock subscriptions receivable	(346)	(238)
Deferred compensation	(16,604)	(31,697)
Treasury stock, at cost; 772,500 common shares	--	(65)
Total stockholders' equity (deficit)	(25,199)	150,706
	$ 30,782	$194,835

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

SONUS NETWORKS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 31, 1998	1999	2000
REVENUES	$ --	$ --	$ 51,770
Manufacturing and product costs (1)	--	1,861	27,848
GROSS PROFIT (LOSS)	--	(1,861)	23,922
OPERATING EXPENSES:			
Research and development (1)	5,824	10,780	26,430
Sales and marketing (1)	426	5,606	21,569
General and administrative (1)	919	1,723	5,477
Stock-based compensation	59	4,404	26,729
Total operating expenses	7,228	22,513	80,205
LOSS FROM OPERATIONS	(7,228)	(24,374)	(56,283)
Interest expense	(78)	(224)	(209)
Interest income	392	711	6,454
NET LOSS	(6,914)	(23,887)	(50,038)
Beneficial conversion feature of Series C preferred stock	--	(2,500)	--
NET LOSS APPLICABLE TO COMMON STOCKHOLDERS	$(6,914)	$(26,387)	$(50,038)
NET LOSS PER SHARE (Note 1(o)):			
Basic and diluted	$ (1.42)	$ (1.84)	$ (0.52)
Pro forma basic and diluted		$ (0.25)	$ (0.37)
SHARES USED IN COMPUTING NET LOSS PER SHARE (Note 1(o)):			
Basic and diluted	4,858	14,324	95,877
Pro forma basic and diluted		96,188	135,057

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(1) Excludes non-cash, stock-based compensation expense as follows:	1998	1999	2000
Manufacturing and product costs	$ --	$ 92	$ 404
Research and development	29	1,537	11,428
Sales and marketing	12	2,104	12,051
General and administrative	18	671	2,846
	$ 59	$ 4,404	$ 26,729

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

SONUS NETWORKS, INC.

CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)

(IN THOUSANDS, EXCEPT SHARE DATA)

	REDEEMABLE CONVERTIBLE PREFERRED STOCK		COMMON STOCK		CAPITAL IN EXCESS OF PAR VALUE
	SHARES	REDEMPTION VALUE	SHARES	PAR VALUE	
BALANCE, DECEMBER 31, 1997	7,100,000	$ 7,100	27,711,318	$ 28	$ 19
Payments on subscriptions receivable	--	--	--	--	--
Issuance of Series A preferred stock and issuance costs of $2	80,000	80	--	--	--
Issuance of Series B preferred stock and issuance costs of $40	3,154,287	15,771	--	--	--
Issuance of common stock to officer	--	--	9,637,497	10	311
Issuance of common stock to employees	--	--	12,221,244	12	167
Compensation associated with the grant of stock options and sale of restricted stock to non-employees	--	--	--	--	59
Net loss	--	--	--	--	--
BALANCE, DECEMBER 31, 1998	10,334,287	22,951	49,570,059	50	556
Issuance of Series B preferred stock and issuance costs of $9	50,000	250	--	--	--
Issuance of Series C preferred stock and issuance costs of $40	1,939,681	22,908	--	--	--
Beneficial conversion feature of Series C preferred stock	--	--	--	--	2,500
Payments on subscriptions receivable	--	--	--	--	--
Issuance of common stock to employees, officers and a director	--	--	15,230,612	15	1,488
Exercise of stock options	--	--	710,250	1	15
Compensation associated with the grant of stock options and sale of restricted stock to non-employees	--	--	--	--	149
Deferred compensation related to stock option grants and sale of restricted common stock	--	--	--	--	20,859
Amortization of deferred compensation	--	--	--	--	--
Net loss	--	--	--	--	--
BALANCE, DECEMBER 31, 1999	12,323,968	46,109	65,510,921	66	25,567
Issuance of Series D preferred stock and issuance costs of $46	1,509,154	24,750	--	--	--
Issuance of common stock to public, net of issuance costs of $10,545	--	--	17,250,000	17	121,688
Payments on subscriptions receivable	--	--	--	--	--
Issuance of common stock to employees	--	--	3,870,676	4	6,421
Conversion of preferred stock to common stock	(13,833,122)	(70,859)	96,957,222	97	70,762
Exercise of stock options	--	--	655,655	--	228
Repurchase of common stock	--	--	--	--	--
Compensation associated with the grant of stock options and sale of restricted stock to non-employees	--	--	--	--	2,389
Deferred compensation related to stock option grants and sale of restricted common stock	--	--	--	--	39,433
Amortization of deferred compensation	--	--	--	--	--
Net loss	--	--	--	--	--
BALANCE, DECEMBER 31, 2000	--	$ --	184,244,474	$184	$266,488

	ACCUMULATED DEFICIT	STOCK SUBSCRIPTIONS RECEIVABLE	DEFERRED COMPENSATION	TREASURY STOCK	
				SHARES	COST
BALANCE, DECEMBER 31, 1997	$ (490)	$ (4)	$ --	--	$ --
Payments on subscriptions receivable	--	4	--	--	--
Issuance of Series A preferred stock and issuance costs of $2	(2)	--	--	--	--
Issuance of Series B preferred stock and issuance costs of $40	(40)	--	--	--	--
Issuance of common stock to officer	--	(257)	--	--	--
Issuance of common stock to employees	--	--	--	--	--
Compensation associated with the grant of stock options and sale of restricted stock to non-employees	--	--	--	--	--
Net loss	(6,914)	--	--	--	--
BALANCE, DECEMBER 31, 1998	(7,446)	(257)	--	--	--
Issuance of Series B preferred stock and issuance costs of $9	(9)	--	--	--	--
Issuance of Series C preferred stock and issuance costs of $40	(40)	--	--	--	--
Beneficial conversion feature of Series C preferred stock	(2,500)	--	--	--	--
Payments on subscriptions receivable	--	21	--	--	--
Issuance of common stock to employees, officers and a director	--	(110)	--	--	--
Exercise of stock options	--	--	--	--	--

Compensation associated with the grant of stock options and sale of restricted stock to non-employees	--	--	--	--	--
Deferred compensation related to stock option grants and sale of restricted common stock	--	--	(20,859)	--	--
Amortization of deferred compensation	--	--	4,255	--	--
Net loss	(23,887)	--	--	--	--
BALANCE, DECEMBER 31, 1999	(33,882)	(346)	(16,604)	--	--
Issuance of Series D preferred stock and issuance costs of $46	(46)	--	--	--	--
Issuance of common stock to public, net of issuance costs of $10,545	--	--	--	--	--
Payments on subscriptions receivable	--	108	--	--	--
Issuance of common stock to employees	--	--	--	--	--
Conversion of preferred stock to common stock	--	--	--	--	--
Exercise of stock options	--	--	--	--	--
Repurchase of common stock	--	--	--	772,500	(65)
Compensation associated with the grant of stock options and sale of restricted stock to non-employees	--	--	--	--	--
Deferred compensation related to stock option grants and sale of restricted common stock	--	--	(39,433)	--	--
Amortization of deferred compensation	--	--	24,340	--	--
Net loss	(50,038)	--	--	--	--
BALANCE, DECEMBER 31, 2000	$(83,966)	$ (238)	$(31,697)	772,500	$ (65)

	TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
BALANCE, DECEMBER 31, 1997	$ (447)
Payments on subscriptions receivable	4
Issuance of Series A preferred stock and issuance costs of $2	(2)
Issuance of Series B preferred stock and issuance costs of $40	(40)
Issuance of common stock to officer	64
Issuance of common stock to employees	179
Compensation associated with the grant of stock options and sale of restricted stock to non-employees	59
Net loss	(6,914)
BALANCE, DECEMBER 31, 1998	(7,097)
Issuance of Series B preferred stock and issuance costs of $9	(9)
Issuance of Series C preferred stock and issuance costs of $40	(40)
Beneficial conversion feature of Series C preferred stock	--
Payments on subscriptions receivable	21
Issuance of common stock to employees, officers and a director	1,393
Exercise of stock options	16
Compensation associated with the grant of stock options and sale of restricted stock to non-employees	149
Deferred compensation related to stock option grants and sale of restricted common stock	--
Amortization of deferred compensation	4,255
Net loss	(23,887)
BALANCE, DECEMBER 31, 1999	(25,199)
Issuance of Series D preferred stock and issuance costs of $46	(46)
Issuance of common stock to public, net of issuance costs of $10,545	121,705
Payments on subscriptions receivable	108
Issuance of common stock to employees	6,425
Conversion of preferred stock to common stock	70,859
Exercise of stock options	228
Repurchase of common stock	(65)
Compensation associated with the grant of stock options and sale of restricted stock to non-employees	2,389
Deferred compensation related to stock option grants and sale of restricted common stock	--
Amortization of deferred compensation	24,340
Net loss	(50,038)
BALANCE, DECEMBER 31, 2000	$150,706

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

SONUS NETWORKS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	1998	1999	2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (6,914)	$(23,887)	$ (50,038)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	466	1,632	5,112
Stock-based compensation to non-employees	59	149	2,389
Stock-based compensation to employees	--	4,255	24,340
Changes in current assets and liabilities:			
Accounts receivable	--	--	(14,100)
Inventories	--	(2,210)	(18,458)
Other current assets	(132)	(136)	(2,595)
Accounts payable	193	990	12,027
Accrued expenses	394	2,201	13,548
Deferred revenue	--	1,031	13,420
Net cash used in operating activities	(5,934)	(15,975)	(14,355)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(1,577)	(4,151)	(14,832)
Maturities of marketable securities	7,295	22,020	32,262
Purchases of marketable securities	(20,212)	(23,784)	(72,538)
Other assets	(292)	(436)	(681)
Net cash used in investing activities	(14,786)	(6,351)	(55,789)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from sale of common stock	243	1,393	128,130
Proceeds from exercise of stock options	--	16	228
Net proceeds from issuance of preferred stock	15,809	23,109	24,704
Payment of stock subscriptions receivable	4	21	108
Proceeds from long-term obligations	1,749	3,609	405
Payments on long-term obligations	(107)	(521)	(5,143)
Repurchase of common stock	--	--	(65)
Net cash provided by financing activities	17,698	27,627	148,367
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,022)	5,301	78,223
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,606	3,584	8,885
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,584	$ 8,885	$ 87,108
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for interest	$ 78	$ 208	$ 225
SUPPLEMENTARY DISCLOSURE OF NON-CASH TRANSACTIONS:			
Issuance of common stock for subscriptions receivable	$ 257	$ 110	$ --
Conversion of redeemable convertible preferred stock into common stock	$ --	$ --	$ 70,859

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

(1) OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Sonus Networks, Inc. (Sonus) was incorporated on August 7, 1997 and is a leading provider of voice infrastructure products for the new public network. Sonus offers a new generation of carrier-class switching equipment and software that enable voice services to be delivered over packet-based networks. Sonus was in the development stage through December 31, 1999 and was principally engaged in research and development, raising capital and hiring its management team.

Sonus is subject to risks common to technology-based companies including, but not limited to, the development of new technology, development of markets and distribution channels, dependence on key personnel and the ability to obtain additional capital as needed to meet its product plans. Sonus has a limited operating history and has incurred significant operating losses since inception.

The accompanying consolidated financial statements reflect the application of certain significant accounting policies as described in this note and elsewhere in the accompanying consolidated financial statements and notes.

(A) PRINCIPLES OF CONSOLIDATION

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

(B) CASH EQUIVALENTS AND MARKETABLE SECURITIES

Cash equivalents are stated at cost plus accrued interest, which approximates market value, and have maturities of three months or less at the date of purchase.

Marketable securities are classified as held-to-maturity, as Sonus has the intent and ability to hold to maturity. Marketable securities are reported at amortized cost. Cash equivalents and marketable securities are invested in high quality credit instruments, primarily U.S. Government obligations and corporate obligations with contractual maturities of less than one year. There have been no gains or losses to date.

(C) CONCENTRATIONS OF CREDIT RISK, SIGNIFICANT CUSTOMERS AND LIMITED SUPPLIERS

The financial instruments that potentially subject Sonus to concentrations of credit risk are cash, marketable securities and receivables. Sonus has no significant off-balance-sheet concentrations such as foreign exchange contracts, options contracts or other foreign hedging arrangements. Sonus' cash holdings are diversified between three financial institutions.

For the year ended December 31, 2000, three customers, each of whom contributed more than 10% of revenues, accounted for an aggregate of 70% of revenues. As of December 31, 2000, two customers accounted for an aggregate of 80% of Sonus' accounts receivable balance. Certain components and software licenses from third-parties used in Sonus' products are procured from a single source. The failure of a supplier, including a subcontractor, to deliver on schedule could delay or interrupt Sonus' delivery of products and thereby adversely affect Sonus' revenues and operating results.

(D) INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out basis) or market.

(E) PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Expenditures for maintenance and repairs are charged to expense as incurred, whereas major betterments are capitalized as additions to property and equipment. Sonus provides for depreciation and amortization using the straight-line method and charges to operations amounts estimated to allocate the cost of the assets over their estimated useful lives.

(F) OTHER ASSETS

Other assets include licenses for certain technology embedded in Sonus products. These licenses are amortized over the lesser of their useful lives or the term of the license.

(G) REVENUE RECOGNITION

Sonus recognizes revenue from product sales to end users, resellers and distributors upon shipment, provided there are no uncertainties regarding acceptance, persuasive evidence of an arrangement exists, the sales price is fixed or determinable and collection of the related receivable is probable. If uncertainties exist, Sonus recognizes revenue when those uncertainties are resolved. In multiple element arrangements, in accordance with Statement of Position 97-2 and 98-9, Sonus uses the residual method when vendor-specific objective evidence does not exist for one of the delivered elements in the arrangement. Service revenue is recognized as the services are provided. Revenue from support arrangements is recognized ratably over the term of the support contracts. Amounts collected prior to satisfying the revenue recognition criteria are reflected as deferred revenue. Warranty costs are estimated and recorded by Sonus at the time of product revenue recognition.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS. This bulletin established guidelines for revenue recognition. Sonus' revenue recognition policy complies with this pronouncement.

(H) SOFTWARE DEVELOPMENT COSTS

Sonus accounts for its software development costs in accordance with Statement of Financial Accounting Standards (SFAS) No. 86, ACCOUNTING FOR THE COSTS OF COMPUTER SOFTWARE TO BE SOLD, LEASED OR OTHERWISE MARKETED. Accordingly, the costs for the development of new software and substantial enhancements to existing software are expensed as incurred until technological feasibility has been established, at which time any additional costs would be capitalized. Sonus has determined that technological feasibility is established at the time a working model of the software is completed. Because Sonus believes its current process for developing software is essentially completed concurrently with the establishment of technological feasibility, no costs have been capitalized to date.

(I) STOCK-BASED COMPENSATION

Sonus uses the intrinsic value-based method of Accounting Principles Board (APB) Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES, to account for all of its employee stock-based compensation plans and uses the fair value method to account for all non-employee stock-based compensation.

(J) COMPREHENSIVE LOSS

Sonus applies Financial Accounting Standards Board (FASB) SFAS No. 130, REPORTING COMPREHENSIVE INCOME. The comprehensive loss for the years ended December 31, 1998, 1999 and 2000 does not differ from the reported loss.

(K) FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of Sonus' financial instruments, which include cash equivalents, marketable securities, stock subscriptions receivable, accounts payable, accrued expenses and long-term obligations, approximate their fair value.

(L) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

(M) NEW PRONOUNCEMENTS

In June 1998, the FASB issued SFAS No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES, as amended by SFAS No. 138, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Pursuant to SFAS No. 137, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES--DEFERRAL OF THE EFFECTIVE DATE OF FASB NO. 133, SFAS No. 133 is effective in fiscal year 2001. SFAS No. 133 is not expected to have a material impact on Sonus' financial condition or results of operations.

In March 2000, the FASB issued Interpretation No. 44, ACCOUNTING FOR CERTAIN TRANSACTIONS INVOLVING STOCK COMPENSATION--AN INTERPRETATION OF ACCOUNTING PRINCIPLES BOARD OPINION NO. 25 (Interpretation No. 44). Interpretation No. 44 clarifies the application of APB Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES. Interpretation No. 44 is effective July 1, 2000 but is retroactive for certain events occurring after December 15, 1998. Interpretation No. 44 did not have a material impact on Sonus' consolidated financial condition or results of operations.

(N) DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE

SFAS No. 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION, establishes standards for reporting information regarding operating segments and establishes standards for related disclosures about products and services and geographic areas. 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, or decision making group, in making decisions regarding resource allocation and assessing performance. To date, Sonus has viewed its operations and manages its business as principally one operating segment.

(O) NET LOSS PER SHARE

Basic net loss per share is computed by dividing the net loss applicable to common stockholders for the period by the weighted average number of unrestricted common shares outstanding during the period. Diluted net loss per share is computed by dividing the net loss applicable to common stockholders for the period by the weighted average number of unrestricted common shares and potential common stock outstanding during the period, if dilutive. Potential common stock consists of restricted shares of common stock and the incremental common shares issuable upon the exercise of stock options as calculated under the treasury stock method. Shares of common stock issuable upon the conversion of Sonus' redeemable convertible preferred stock have been excluded. In accordance with SAB No. 98, EARNINGS PER SHARE IN AN INITIAL PUBLIC OFFERING, Sonus determined there were no nominal issuances of Sonus' stock prior to Sonus' initial public offering (IPO).

Restricted common stock and options to purchase 1,672,500, 3,052,743 and 17,725,526 shares of common stock have not been included in the computation of diluted net loss per share for the years ended December 31, 1998, 1999 and 2000, respectively, as their effects would have been anti-dilutive (see Note 10(g)).

Pro forma basic and diluted net loss per share for the years ended December 31, 1999 and 2000 are computed using the weighted average number of unrestricted common shares outstanding, including the pro forma effects of the automatic conversion of Sonus' Series A, B, C and D redeemable convertible preferred stock into shares of Sonus' common stock, which occurred upon the closing of Sonus' IPO in May of 2000, as if such conversion occurred at the date of original issuance. There were no dilutive shares of potential common stock for these periods.

The following table sets forth the computation of basic and diluted net loss per share and pro forma basic and diluted net loss per share:

	YEAR ENDED DECEMBER 31,		
	1998	1999	2000
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
HISTORICAL--			
Net loss applicable to common stockholders	$(6,914)	$(26,387)	$(50,038)
Weighted average common shares outstanding	35,401	57,460	135,364
Less weighted average restricted common shares outstanding	(30,543)	(43,136)	(39,487)
Shares used in computing basic and diluted net loss per share	4,858	14,324	95,877
Basic and diluted net loss per share	$ (1.42)	$ (1.84)	$ (0.52)
PRO FORMA--			
Net loss		$(23,887)	$(50,038)
Shares used in computing historical basic and diluted net loss per share		14,324	95,877
Weighted average number of common shares assumed to be issued upon conversion of redeemable convertible preferred stock		81,864	39,180
Shares used in computing pro forma basic and diluted net loss per share		96,188	135,057
Pro forma basic and diluted net loss per share		$ (0.25)	$ (0.37)

(2) ACQUISITION OF TELECOM TECHNOLOGIES, INC.

On January 18, 2001, Sonus acquired privately-held telecom technologies, inc. (TTI). Upon the closing of this acquisition, an aggregate of 10,800,000 shares of Sonus common stock (Merger Shares) were exchanged for all outstanding shares of TTI Class A and Class B common stock. Of the 10,800,000 shares issued to the TTI stockholders, 1,200,000 shares were placed into escrow as security for TTI's indemnity obligations under the merger agreement and will be released to TTI stockholders upon expiration of those indemnity obligations, expected to be on the first anniversary of the closing date. In addition to the Merger Shares, the TTI stockholders will have the right to receive up to an aggregate of 4,200,000 additional shares of Sonus common stock which have been placed in escrow in the event that TTI achieves certain specified business expansion and product development milestones from time to time prior to December 31, 2002.

Sonus has also agreed to make contingent awards of up to 3,000,000 shares of common stock to certain employees of TTI who became employees of Sonus as a result of the acquisition under the 2000 Retention Plan. These awards will vest in equal installments on each of October 31, 2002, November 30, 2002, January 31, 2003 and February 28, 2003, if (i) the recipients do not voluntarily terminate employment with TTI or Sonus prior to such vesting dates and (ii) the business expansion and product development escrow release conditions are satisfied in whole or in part. The portion of the total number of shares of Sonus common stock awarded to each employee that will be deemed vested on each vesting date will not exceed the proportion of all of the shares escrowed in the acquisition subject to the satisfaction of the business expansion and product development escrow release conditions that have been released prior to such vesting date. Generally, any awards forfeited by employees who terminate employment with TTI, other than a termination by Sonus or TTI without cause, prior to the date on which they would otherwise vest, may be reallocated to remaining TTI employees, awarded to replacement hires or returned to Sonus as provided by the terms of the plan. The value of the 3,000,000 shares awarded under the retention plan is expected to be expensed during the approximate two year vesting period based upon the closing price of Sonus common stock on the date the acquisition was consummated, $112,125,000 in the aggregate. Such value and the related expense will be adjusted for the change in the fair value of Sonus common stock on the date the related milestone release conditions are satisfied.

The acquisition will be accounted for using the purchase method of accounting in accordance with APB Opinion No. 16. Accordingly, the total purchase price will be allocated to the assets acquired and liabilities assumed based upon their estimated fair values. The purchase price has been determined by using the average market value of Sonus common stock for the period from two days before to two days after the announcement of the TTI acquisition ($41.61 per share) to value the 10,800,000 Sonus common shares issued to the TTI stockholders at the closing date and adding the fair value of liabilities assumed and expenses of the acquisition. The preliminary purchase price has been computed as follows, in thousands:

Fair market value of shares issued	$450,000
Estimated liabilities to be assumed	21,200
Estimated acquisition expenses	6,300
	$477,500

In accordance with APB Opinion No. 16 and with the assistance of valuation experts, the purchase price will be allocated to the tangible and intangible assets acquired based upon their fair values. Based upon preliminary appraisals, the purchase price allocation is as follows, in thousands:

Tangible assets	$ 6,300
Intangible assets:	
Workforce, developed technology and customer list	32,300
In-process research and development	40,000
Deferred compensation related to unvested options	22,600
Goodwill	376,300
	$477,500

To the extent that any of the additional 4,200,000 escrowed shares are released to the former TTI stockholders, the purchase price and goodwill will be increased by the value of such shares on the date the relevant escrow release condition is satisfied.

Sonus has engaged third-party appraisers to conduct a valuation of the tangible and intangible assets and to assist in the determination of useful lives for such assets. Based on the preliminary appraisal, it is anticipated that $40,000,000 will be allocated to in-process research and development, which will be expensed in the first quarter of fiscal 2001. The amounts allocated to developed technology, customer list, assembled workforce and goodwill is expected to be amortized over their estimated useful lives of three to four years. Deferred compensation was computed based on the intrinsic value of the unvested TTI options assumed by Sonus and will be expensed over the remaining vesting period of up to four years.

The valuation of in-process research and development was determined using the income method. Revenue and expense projections for the in-process development project were prepared by the management of Sonus through 2008 and the present value was computed using a discount rate of 22.5%. The in-process project is not expected to reach technological feasibility until the end of 2001, at an estimated cost to complete of approximately $5,000,000. In the event that the project is not completed and technological feasibility is not achieved, there is no alternative future use for the in-process technology. The assumptions used for the valuation of in-process research and development are the responsibility of management and are subject to change.

(3) INVENTORIES

Inventories consist of the following, in thousands:

	DECEMBER 31,	
	1999	2000
Raw materials	$ 305	$ 3,082
Work in progress	941	3,021
Finished goods	964	14,565
	$2,210	$20,668

(4) PROPERTY AND EQUIPMENT

Property and equipment consist of the following, in thousands:

	ESTIMATED USEFUL LIFE	DECEMBER 31, 1999	DECEMBER 31, 2000
Equipment and software	2-3 years	$ 5,956	$19,805
Furniture and fixtures	3-5 years	69	342
Leasehold improvements	Life of lease	50	760
		6,075	20,907
Less accumulated depreciation and amortization		(1,806)	(6,634)
		$ 4,269	$14,273

(5) LONG-TERM OBLIGATIONS

Sonus had a $7,000,000 equipment line of credit with a bank, bearing interest at the bank's prime rate (8.5% at December 31, 1999) plus 0.5%, available through June 30, 2000. Under the agreement, all of Sonus' assets, except intellectual property, had been pledged as collateral and Sonus was to maintain a certain minimum tangible stockholders' equity and quick ratio, as defined. As of December 31, 1999, Sonus had an outstanding balance of $4,738,000. In June 2000, approximately $5,100,000, representing all amounts then outstanding under this line was repaid and the equipment line of credit was terminated.

(6) OTHER BALANCE SHEET DATA

(A) ACCRUED EXPENSES

Accrued expenses consist of the following, in thousands:

	DECEMBER 31, 1999	DECEMBER 31, 2000
Employee compensation and related costs	$1,381	$ 3,121
Employee stock purchase plan	--	3,108
Professional fees	609	817
Royalties	91	3,613
Other	610	5,580
	$2,691	$16,239

(B) VALUATION OF QUALIFYING ACCOUNTS

The following table sets forth activity in Sonus' allowance for doubtful accounts, in thousands:

	BALANCE AT BEGINNING OF YEAR	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	BALANCE AT END OF YEAR
Year ended December 31, 2000	$ --	1,000	--	--	$1,000

(7) INCOME TAXES

Sonus provides for income taxes in accordance with SFAS No. 109, ACCOUNTING FOR INCOME TAXES. Deferred tax assets and liabilities are determined based on differences between the financial statement and tax bases of assets and liabilities using enacted tax rates.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. A valuation allowance has been recorded for the net deferred tax asset due to the uncertainty of realizing the benefit of this asset.

The following is a summary of the significant components of Sonus' deferred tax assets and liabilities, in thousands:

	DECEMBER 31,	
	1999	2000
Net operating loss carryforwards	$ 9,204	$ 15,924
Tax credit carryforwards	761	1,779
Start-up costs	485	363
Deferred revenue	412	--
Other temporary differences	560	4,669
Valuation allowance	(11,422)	(22,735)
	$ --	$ --

As of December 31, 2000, Sonus has net operating loss carryforwards for federal income tax purposes of approximately $40,000,000, which expire through 2020. Sonus also has available research and development credit carryforwards of approximately $1,780,000 that expire through 2020. The Internal Revenue Code contains provisions that limit the net operating loss and tax credit carryforwards available to be used in any given year in the event of certain circumstances, including significant changes in ownership interests. Sonus has completed several financings since inception and has incurred ownership changes. Sonus does not believe that these changes will have a material impact on its ability to use its net operating loss and tax credit carryforwards.

(8) LEASE COMMITMENTS

Sonus leases its facilities under operating leases, which expire through March 2004. Rent expense was approximately $150,000, $537,000 and $1,310,000 for the years ended December 31, 1998, 1999 and 2000, respectively. Sonus is responsible for certain real estate taxes, utilities and maintenance costs under these leases. The future minimum payments under operating lease arrangements, including those leases assumed as part of the acquisition of TTI, as of December 31, 2000, are as follows: $3,355,000 in 2001; $3,393,000 in 2002; $2,253,000 in 2003; and $447,000 in 2004.

Sonus also assumed certain capital leases as part of the acquisition of TTI. The future minimum payments under these capital leases, as of December 31, 2000, are as follows: $657,000 in 2001; $640,000 in 2002; $536,000 in 2003; $195,000 in 2004; and $30,000 in 2005.

(9) REDEEMABLE CONVERTIBLE PREFERRED STOCK

Prior to the closing of our IPO in May 2000, Sonus had authorized 17,000,000 shares of preferred stock, $0.01 par value, and designated four series of redeemable convertible preferred stock: 7,220,000 shares of Series A preferred stock; 3,247,857 shares of Series B preferred stock; 2,153,072 shares of Series C preferred stock; and 1,585,366 shares of Series D preferred stock. In connection with our IPO in May 2000, all redeemable convertible preferred stock was converted into an aggregate of 96,957,222 shares of common stock. A summary of the redeemable convertible preferred stock issuances from inception and redemption value as of the closing of our IPO in May 2000 are as follows:

DESCRIPTION	DATE	NUMBER OF SHARES	PRICE PER SHARE	REDEMPTION VALUE
				(IN THOUSANDS)
Series A......	November 1997 and July 1998	7,180,000	$ 1.00	$ 7,180
Series B......	September and December 1998, May 1999	3,204,287	5.00	16,021
Series C......	September, November and December 1999	1,939,681	11.81	22,908
Series D......	March 2000	1,509,154	16.40	24,750
		13,833,122		$70,859

The rights, preferences and privileges of the Series A, Series B, Series C and Series D redeemable convertible preferred stock are as follows:

CONVERSION

Each share of Series A, B and C preferred stock was convertible into 7.5 shares of common stock and each share of Series D preferred stock was convertible into three shares of common stock, each adjustable for certain dilutive events. Conversion was at the option of the holder, but became automatic upon the closing of an IPO for the Series A, B and C preferred stock in which at least $10,000,000 of net proceeds shall be received by Sonus at a price of at least $2.67 per share and for the Series D preferred stock with at least $25,000,000 of net proceeds at a price of at least $6.56 per share. Redemption if requested prior to the redemption dates specified below by holders of 66 2/3% of the then outstanding Series A, B, C and D preferred stock, Sonus was required to redeem such stock at $1.00, $5.00, $11.81 and $16.40 per share, respectively, as adjusted in the event of future dilution, plus declared but unpaid dividends as follows:

SERIES A, B AND C REDEMPTION DATE	SERIES D REDEMPTION DATE	PERCENTAGE OF THEN OUTSTANDING PREFERRED SHARES TO BE REDEEMED
November 18, 2002....	March 9, 2005	33.33%
November 18, 2003	March 9, 2006	50.00%
November 18, 2004	March 9, 2007	All shares then held

DIVIDENDS

Series A, B, C and D preferred stockholders were entitled to receive any cash dividend declared on common stock equal to the amount they would be entitled to if such preferred stock had been converted into common stock. In connection with the sale of an aggregate of 211,688 shares of Series C preferred stock in November and December 1999, Sonus recorded a charge to accumulated deficit of $2,500,000. This amount represents the beneficial conversion feature of the Series C preferred stock. This amount has been accounted for as a dividend to preferred stockholders and as a result, increased Sonus' capital in excess of par value, net loss applicable to common stockholders and the related net loss per share.

LIQUIDATION PREFERENCE

In the event of liquidation of Sonus and before any distribution to common stockholders, the Series A, B, C, and D preferred stockholders were entitled to share pro rata, $1.00, $5.00, $11.81 and $16.40 per share, respectively, plus all declared but unpaid dividends.

VOTING RIGHTS

Series A, B, C, and D preferred stockholders were entitled to one vote per common share equivalent on all matters voted on by holders of common stock. In addition, the Series A preferred stockholders were entitled to elect 40% of the board members as long as 1,775,000 shares of such preferred stock were outstanding.

(10) STOCKHOLDERS' EQUITY (DEFICIT)

(A) AUTHORIZED CAPITAL STOCK

In May 2000, Sonus' stockholders approved an increase in the authorized shares of common stock to 300,000,000 shares and authorized and approved 5,000,000 shares of $0.01 par value undesignated preferred stock that may be issued by the Board of Directors from time to time in one or more series.

(B) STOCK SPLIT

On October 6, 2000, Sonus effected a three-for-one stock split in the form of a stock dividend. All common shares, common stock options and per share amounts in the accompanying financial statements and footnotes have been retroactively adjusted to reflect the stock split.

(C) INITIAL PUBLIC OFFERING

On May 31, 2000, Sonus completed its IPO of 17,250,000 shares of common stock, which includes the exercise of the underwriters' over allotment option of 2,250,000 shares, at $7.67 per share. The proceeds from the IPO were $121,705,000, after deducting the underwriting discount and commissions and offering expenses of $10,545,000.

(D) STOCK SUBSCRIPTIONS RECEIVABLE

On November 4, 1998, Sonus entered into a stock subscription agreement for $257,000 from an officer that bears interest at 8%. The note is secured by 7,710,000 shares of Sonus' restricted common stock and is due upon the earlier of November 4, 2003 or 180 days after such shares are eligible for public sale. The interest payments on the note are unconditional and are not limited to the aforementioned stock. As of December 31, 2000, this note due Sonus had a remaining principal balance of $238,000.

On September 1, 1999, Sonus entered into a stock subscription agreement for $110,250 from an officer that bears interest at 8%. The full recourse note was secured by 1,687,500 shares of Sonus' restricted common stock and was due upon the earlier of September 1, 2004 or 180 days after such shares were eligible for public sale. As of December 31, 2000, this note had been repaid.

(E) COMMON STOCK PURCHASE RIGHT

In November 1999, Sonus signed a definitive purchase and license agreement (the Agreement) with a customer to provide certain Sonus products. Under the terms of the Agreement, the customer also had the right to purchase shares of common stock in Sonus' IPO at the IPO price. The number of shares equaled 5% of the dollar value of the customer's accumulated purchases of Sonus' products and services as of the date of the IPO divided by the IPO per share price, but in no event more than 5% of the shares offered in the IPO. The ability of the customer to exercise its right to purchase such shares was contingent upon the closing of our IPO on a national exchange. In connection with our IPO in May 2000, the customer exercised their right and purchased shares in the IPO.

(F) RESTRICTED COMMON STOCK

Sonus issued 24,615,693 and 262,500 shares of restricted common stock outside of the 1997 Stock Incentive Plan (the Plan) in the period ended December 31, 1997 and in the year ended December 31, 1999, respectively. These shares are subject to repurchase agreements which expire over a five-year period. Sonus may repurchase any remaining restricted shares of common stock held by these individuals upon termination of employment at their original purchase price ranging from $0.0001 to $0.001 per share. All shares of common stock subject to repurchase restrictions contain the same rights and privileges as unrestricted shares of common stock and are presented as outstanding as of the date of issuance. As of December 31, 2000, 6,458,605 of these common shares were restricted and subject to Sonus' repurchase.

(G) 1997 STOCK INCENTIVE PLAN

The Plan, which is administered by the Board of Directors, permits Sonus to sell or award restricted common stock or to grant incentive and non-qualified stock options for the purchase of common stock to employees, directors and consultants. In March, 2000, Sonus' stockholders increased the shares authorized under the Plan from 48,750,000 to 81,000,000. On January 1 of each year, commencing with January 2001, the aggregate number of shares of common stock available for purchase under the Plan shall increase by the lesser of (i) 5% of the outstanding shares on December 31 of the preceding year or (ii) an amount determined by the Board of Directors. At December 31, 2000, 18,887,915 shares were available under the Plan for future sale of restricted common stock or grant of stock options.

Sonus issued shares of restricted common stock to employees and consultants which are subject to repurchase agreements and generally vest over a four or five-year period. If the employee leaves or if the services are not performed, Sonus may repurchase any restricted shares of common stock held by these individuals at their original purchase price ranging from $0.01 to $4.67 per share. All shares of common stock subject to repurchase restrictions contain the same rights and privileges as unrestricted shares of common stock and are presented as outstanding as of the date of issuance. As of December 31, 2000, 25,700,769 shares of the outstanding common stock issued under the Plan were restricted and subject to Sonus' repurchase.

A summary of activity under the Plan for the years ended December 31, 1998, 1999 and 2000, is as follows:

RESTRICTED COMMON STOCK ISSUANCES

	NUMBER OF SHARES	PURCHASE PRICE	WEIGHTED AVERAGE PURCHASE PRICE
Outstanding, December 31, 1997	3,095,625	$ 0.01	$0.01
Issued	21,858,741	0.01-0.07	0.02
Outstanding, December 31, 1998	24,954,366	0.01-0.07	0.02
Issued	14,968,116	0.07-0.22	0.10
Outstanding, December 31, 1999	39,922,482	0.01-0.22	0.05
Issued	3,870,672	0.22-4.67	1.88
Repurchased	(772,500)	0.07-0.22	0.08
Outstanding, December 31, 2000	43,020,654	$ 0.01-4.67	$0.21
Unrestricted common stock, December 31, 2000	17,319,885	$ 0.01-4.67	$0.05

COMMON STOCK OPTION GRANTS

	NUMBER OF SHARES	EXERCISE PRICE	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, December 31, 1997	375,000	$ 0.001	$0.001
Granted	1,335,000	0.01-0.07	0.05
Canceled	(37,500)	0.07	0.07
Outstanding, December 31, 1998	1,672,500	0.001-0.07	0.04
Granted	2,090,493	0.07-0.22	0.13
Exercised	(710,250)	0.001-0.07	0.02
Outstanding, December 31, 1999	3,052,743	0.01-0.22	0.11
Granted	15,531,937	0.67-22.25	10.39
Canceled	(203,499)	0.01-3.33	1.75
Exercised	(655,655)	0.07-7.67	0.31
Outstanding, December 31, 2000	17,725,526	$ 0.01-22.25	$ 9.07
Exercisable, December 31, 2000	783,589	$ 0.01-22.25	$ 1.35

The following table summarizes information relating to currently outstanding and exercisable options as of December 31, 2000:

	OUTSTANDING			EXERCISABLE	
EXERCISE PRICES	NUMBER OF SHARES	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
$0.01-0.22.........	2,347,585	8.39	$ 0.12	674,338	$ 0.10
0.67..............	1,199,152	9.05	0.67	31,251	0.67
3.33-4.67.........	8,039,189	9.26	3.87	33,600	3.70
7.67-22.25........	6,139,600	9.92	20.96	44,400	18.90
	17,725,526..		$ 9.07	783,589	$ 1.35

(H) STOCK-BASED COMPENSATION

Stock-based compensation expenses includes the amortization of deferred employee compensation and other equity related expenses for non-employees.

In connection with certain employee stock option grants and the issuance of employee restricted common stock during the years ended December 31, 1999 and 2000, Sonus recorded deferred stock-based compensation of $20,859,000 and $39,433,000, respectively. This represents the aggregate difference between the exercise price or purchase price and the fair value of the common stock on the date of grant or sale for accounting purposes. The deferred compensation is recognized as an expense over the vesting period of the underlying stock options and restricted common stock. Sonus recorded stock-based compensation expense of $4,255,000 and $24,340,000 in the years ended December 31, 1999 and 2000, respectively, related to these options and restricted common stock.

In connection with the acquisition of TTI, Sonus expects to record deferred stock-based compensation of $22,600,000 related to the intrinsic value of unvested TTI options assumed by Sonus. This deferred compensation will be recognized as an expense over the remaining vesting period of the underlying stock options of up to four years. Additionally, Sonus expects to record $112,125,000 of deferred stock-based compensation on up to 3,000,000 shares to be awarded to TTI employees under the 2000 Retention Plan, based on the fair value of the Sonus common stock on the closing date of the acquisition. This deferred compensation will be expensed ratably over the approximate two-year vesting period of the retention shares and will be adjusted for changes in the fair value of Sonus common stock on the date the specific escrow release conditions are satisfied (See Note 2).

Based on the grant of Sonus' stock options and the sale of restricted common stock through December 31, 2000, the intrinsic value of the unvested TTI stock options assumed by Sonus and the awards under the 2000 Retention Plan, Sonus expects to record approximately $76,000,000, $72,300,000, $14,500,000 and $3,600,000 in employee stock-based compensation expense in the years ending December 31, 2001, 2002, 2003 and 2004, respectively.

Sonus granted 1,288,500 non-qualified stock options to non-employees for services rendered in the period from inception to December 31, 2000. In 1998, 1999, and 2000 Sonus sold 414,000 shares of restricted common stock and 10,000 shares of Series B preferred stock to consultants at their then current fair market value, subject to repurchase provisions, in the event consulting services are no longer provided.

Sonus has valued the stock options and the issuances of restricted common stock and Series B preferred stock to non-employees based upon the fair market value of the services rendered where Sonus believes the value of these services is more readily determinable than the value of the options or restricted stock. All other grants of options and issuances of restricted stock to non-employees are valued based upon the Black-Scholes option pricing model. As of December 31, 2000, Sonus has 135,000 stock options and 120,000 shares of restricted common stock outstanding to non-employees. Sonus has recorded stock-based compensation expense of $59,000, $149,000 and $2,389,000 for the grant of options and issuances of restricted stock to non-employees for the years ended December 31, 1998, 1999 and 2000, respectively. In accordance with Emerging Issues Task Force 96-18, Sonus will record the value at the time the services are provided.

The value of the options granted to employees as calculated under SFAS No. 123 for the year ended December 31, 1998 was immaterial to the consolidated financial statements. Sonus has computed the pro forma disclosures required under SFAS No. 123 for options granted to employees for the years ended December 31, 1999 and 2000, using the Black-Scholes option pricing model with an assumed risk-free interest rate of 5%, 60% volatility in 1999 and 80% volatility in 2000 and an expected life ranging from 2-5 years with the assumption that no dividends will be paid. Had compensation expense for Sonus' stock option plan been determined consistent with SFAS No. 123, the pro forma net loss and pro forma net loss per share would have been as follows:

	YEAR ENDED DECEMBER 31,	
	1999	2000
Net loss applicable to common stockholders, in thousands--		
As reported	$(26,387)	$(50,038)
Pro forma	(26,400)	(55,980)
Basic and diluted net loss per share--		
As reported	$ (1.84)	$ (0.52)
Pro forma	(1.84)	(0.58)

(I) 2000 EMPLOYEE STOCK PURCHASE PLAN

In March 2000, the stockholders approved the 2000 Employee Stock Purchase Plan. A total of 3,600,000 shares of common stock have been reserved for issuance under this plan. The plan consists of a series of overlapping 24-month offering periods. Each offering period generally consists of four consecutive 6-month purchase periods. Eligible employees may purchase common stock at a price equal to 85% of the lower of the fair market value of the common stock at the beginning of each offering period or end of each purchase period. Participation is limited to 20% of an employee's eligible compensation not to exceed amounts allowed by the Internal Revenue Code. On January 1 of each year, commencing with January 2001, the aggregate number of shares of common stock available for purchase under the Employee Stock Purchase Plan shall increase by the lesser of (i) 2% of the outstanding shares on December 31 of the preceding year or (ii) an amount determined by the Board of Directors. As of December 31, 2000, Sonus has not issued any shares under the 2000 Employee Stock Purchase Plan.

(J) COMMON STOCK RESERVED

Common stock reserved for future issuance at December 31, 2000 consist of the following:

Stock incentive plan	36,613,441
Employee stock purchase plan	3,600,000
	40,213,441

(11) EMPLOYEE BENEFIT PLAN

In 1998, Sonus adopted a savings plan for its employees, which has been qualified under Section 401(a) of the Internal Revenue Code. Eligible employees are permitted to contribute to the 401(k) plan through payroll deductions within statutory and plan limits. Contributions from Sonus are made at the discretion of the Board of Directors. Sonus has made no contributions to the 401(k) plan to date.

(12) SUPPLEMENTARY DATA

QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table presents our quarterly operating results for the years ended December 31, 1999 and 2000. The information for each of these quarters is unaudited and has been prepared on the same basis as the audited consolidated financial statements. In the opinion of management, all necessary adjustments, consisting only of normal recurring adjustments, have been included to present fairly the unaudited consolidated quarterly results when read in conjunction with our audited consolidated financial statements and related notes. These operating results are not necessarily indicative of the results of any future period.

	THREE MONTHS ENDED							
	MAR. 31, 1999	JUNE 30, 1999	SEPT. 30, 1999	DEC. 31, 1999	MAR. 31, 2000	JUNE 30, 2000	SEPT. 30, 2000	DEC. 31, 2000
	(IN THOUSANDS) (UNAUDITED)							
CONSOLIDATED STATEMENT OF OPERATIONS DATA:								
Revenues	$ --	$ --	$ --	$ --	$ 1,093	$ 6,511	$ 15,568	$28,598
Manufacturing and product costs	223	349	519	770	1,462	4,555	8,830	13,001
Gross profit (loss)	(223)	(349)	(519)	(770)	(369)	1,956	6,738	15,597
Operating expenses:								
Research and development	2,684	2,387	2,434	3,275	4,844	6,355	7,032	8,199
Sales and marketing	438	834	1,475	2,859	3,358	4,381	5,833	7,997
General and administrative	301	375	438	609	713	1,277	1,763	1,724
Stock-based compensation	517	564	1,090	2,233	6,979	6,386	6,982	6,382
Total operating expenses	3,940	4,160	5,437	8,976	15,894	18,399	21,610	24,302
Loss from operations	(4,163)	(4,509)	(5,956)	(9,746)	(16,263)	(16,443)	(14,872)	(8,705)
Interest income (expense), net	120	92	71	204	228	1,089	2,495	2,433
Net loss	(4,043)	(4,417)	(5,885)	(9,542)	(16,035)	(15,354)	(12,377)	(6,272)
Beneficial conversion feature of Series C preferred stock	--	--	--	(2,500)	--	--	--	--
Net loss applicable to common stockholders	$(4,043)	$(4,417)	$(5,885)	$(12,042)	$(16,035)	$(15,354)	$(12,377)	$(6,272)

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
3.1**	Fourth Amended and Restated Certificate of Incorporation of the Registrant.
3.2**	Amended and Restated By-Laws of the Registrant.
4.1**	Form of Stock Certificate representing shares of the Registrant's Common Stock.
9.1***	Voting Agreement, dated as of November 2, 2000, among the Registrant, the Stockholder parties thereto and telecom technologies, inc.
10.1*	Registration Rights Agreement, dated as of November 2, 2000, by and among the Registrant and the Stockholder parties thereto.
10.2*	2000 Retention Plan of the Registrant.
10.3*	telecom technologies, inc. 1998 Amended Equity Incentive Plan.
10.4**	Amended and Restated 1997 Stock Incentive Plan of the Registrant.
10.5**	2000 Employee Stock Purchase Plan of the Registrant.
10.6**	Lease, dated January 21, 1999, as amended, between the Registrant and Glenborough Fund V, Limited Partnership with respect to property located at 5 Carlisle Road, Westford, Massachusetts.
10.7*	Sub-lease, dated October 20, 2000, between the Registrant and Unisphere Networks, Inc. with respect to property located at 5 Carlisle Road, Westford, Massachusetts.
10.8*	Sub-Lease, dated October 20, 2000, between the Registrant and Unisphere Networks, Inc. with respect to property located at 235 Littleton Road, Westford, Massachusetts.
10.9*	Lease, dated September 30, 2000, between the Registrant and BCIA New England Holdings LLC with respect to property located at 25 Porter Road, Littleton, Massachusetts.
10.10**	Series C Preferred Stock Purchase Agreement, dated as of September 10, 1999, by and among the Registrant and the "Purchaser" parties thereto.
10.11**	Series D Preferred Stock Purchase Agreement, dated as of March 9, 2000, by and among the Registrant and the "Purchaser" parties thereto.
10.12**	Third Amended and Restated Investor Rights Agreement, dated as of March 9, 2000, by and among the Registrant and the "Purchaser" parties thereto.
10.13**	Third Amended and Restated Right of First Refusal and Co-Sale Agreement, dated as of March 9, 2000, among the Registrant and the persons and entities listed on the signature pages thereto.
10.14**	Modification Agreement, dated as of November 29, 1999, by and between the Registrant and Silicon Valley Bank.
10.15**	Agreement of Sublease, dated April 14, 2000, between the Registrant and Unisphere Solutions, Inc. with respect to property located at 25 Porter Road, Littleton, Massachusetts.
10.16**	Promissory Note, dated November 4, 1998, of Hassan M. Ahmed to the Registrant and associated Pledge Agreement.
10.17**	Promissory Note, dated September 1, 1999, of Stephen J. Nill to the Registrant and associated Pledge Agreement.
10.18***	Agreement and Plan of Merger and Reorganization, dated as of November 2, 2000, by and among the Registrant, Storm Merger Sub, Inc. and telecom technologies, inc.
10.19	Employment Agreement, dated November 2, 2000, among telecom technologies, inc., Anousheh Ansari and the Registrant.
10.20	Office Lease Agreement, dated as of November 14, 2000, between telecom technologies, inc. and TR Lookout Partners, Ltd. with respect to property located at

1301 East Lookout Drive, Suite 3000, Richardson, Texas.

EXHIBIT NUMBER	DESCRIPTION
10.21	First Amendment to Office Lease Agreement, dated as of January 8, 2001, between telecom technologies, inc. and TR Lookout Partners, Ltd. with respect to property located at 1300 East Lookout Drive, Suite 3000, Richardson, Texas.
21.1	Subsidiaries of the Registrant.

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* Incorporated by reference to the Registrant's Registration Statement on Form S-4 (file No. 333-52682).

** Incorporated by reference to the Registrant's Registration Statement on Form S-1 (file No. 333-32206).

*** Incorporated by reference to the Registrant's Current Report on Form 8-K, filed November 17, 2000.

Exhibit 10.19

EMPLOYMENT AGREEMENT

AGREEMENT by and between Sonus Networks, Inc., a Delaware corporation (the "Parent"), telecom technologies, inc., a Texas corporation (the "Company") and Anousheh Ansari (the "Executive"), dated as of the second day of November, 2000.

WHEREAS, pursuant to that certain Agreement and Plan of Merger and Reorganization, dated as of November 2, 2000, by and among the Company, a wholly owned subsidiary of Parent ("Merger Subsidiary"), and Parent (the "Merger Agreement"), Merger Subsidiary will merge with and into the Company (the "Merger") and the Company shall be the surviving corporation;

WHEREAS, the Company has determined that it is in the best interests of the Company and its shareholders to assure that the Company will have the dedicated employment of the Executive pending the Merger and to provide the Company, which will be the surviving corporation after the Merger, with continuity of management;

WHEREAS, pursuant to the Merger Agreement Parent is acquiring the Company and issuing to its stockholders an aggregate of 9.6 million shares of common stock, $0.001 par value per share ("Parent Common Stock"), and, should certain conditions relating to the performance of the Company be satisfied after the effectiveness of the Merger by the Company, the Company's stockholders will receive up to an additional 5.4 million shares of Parent Common Stock;

WHEREAS, the Executive is one of the founders and the principal stockholders of the Company, and has been, and will continue to be, integral to the success of the Company and will be responsible for key management decisions concerning the Company;

WHEREAS, the Executive and Parent agree and acknowledge that the future success and value of the Company is largely dependant upon the Executive contributing to the development and growth of the Company after the Merger has been consummated, and that the Parent is not willing to consummate the Merger unless the Executive agrees to be bound by the terms of this Agreement;

WHEREAS, Parent and the Executive acknowledge that if the Executive's employment hereunder terminates under certain circumstances described herein, it would result in severe injury and damage to the Company and Parent; and

WHEREAS, the Executive is willing to provide the services described in this Agreement on the terms and conditions set forth herein, and Parent is willing to employ executive on such basis;

NOW, THEREFORE, FOR GOOD AND VALUABLE CONSIDERATION, RECEIPT OF WHICH IS HEREBY ACKNOWLEDGED, IT IS HEREBY AGREED AS FOLLOWS:

1. EFFECTIVE DATE. The "Effective Date" shall mean the date on which the Effective Time of the Merger (as defined in the Merger Agreement) occurs.

2. EMPLOYMENT PERIOD. The Company hereby agrees to employ the Executive, and the Executive hereby agrees to enter into the employ of the Company subject to the terms and conditions of this Agreement, for the period commencing on the Effective Date and ending on January 1, 2003 (the "Employment Period"), unless sooner terminated in accordance with Section 4 hereof. If the Merger Agreement is terminated prior to the consummation of the Merger, this Agreement shall be of no force and effect. From and after the Employment Period, the Executive shall be an "at-will" employee of the Company.

3. TERMS OF EMPLOYMENT. (a) POSITION AND DUTIES. (i) During the Employment Period, (A) the Executive shall serve as a senior executive of the Parent with the title of General Manager and Vice President responsible for the business division of the Parent conducting the business of the Company, with such authority, duties and responsibilities as are assigned to the "Manager" in the Management Covenants contained in Section 10.8 of the Merger Agreement (the "Management Covenants"), which covenants and obligations of the Company and the Parent are incorporated by reference in their entirety into this Agreement, to the extent that the Executive remains the Manager, (B) the Executive shall report directly to the Chief Executive Officer of the Parent, and (C) the Executive's services shall be performed at the Company's principal executive offices, which shall be at the location of such offices as of the Effective Date, or within 30 miles of such location.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote her attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees (B) deliver lectures, fulfill speaking engagements, or, subject to the policies generally applicable to similarly situated executives of the Parent, if any, that may be adopted by the Board of Directors of the Parent, teach at educational institutions and (C) manage personal investments, so long as such activities do not interfere (other than incidentally) with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement or violate any of the other terms and conditions hereof, including those of Section 8 below. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the Effective Date and are listed on Schedule 3(ii) hereto, the continued conduct of such activities subsequent to the Effective Date shall not thereafter be deemed to significantly interfere with the performance of the Executive's responsibilities to the Company and, in the case of the continued conduct of such activities, shall not be treated as a violation of Section 8(a)(i).

(b) COMPENSATION. (i) BASE SALARY. During the Employment Period, the Executive shall receive a minimum annual base salary of not less than $150,000 (the "Annual Base Salary"). Any increase in Annual Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement.

(ii) ANNUAL BONUS. With respect to each of the calendar years ending during the Employment Period, the Executive shall receive an annual cash bonus to be determined on the same basis as the Parent determines annual bonuses for its senior executives (the "Annual Bonus"), which Annual Bonus shall be paid in accordance with the Parent's practices for senior executives as in effect from time to time.

(iii) RETENTION STOCK AWARD. Effective as of the Effective Time, the Parent shall grant the Executive a retention stock award for 750,000 shares of Parent Common Stock (the "Retention Stock Award") pursuant to the Parent's 2000 Retention Plan, a copy of which is attached as Exhibit A hereto. As of the Effective Date, the Executive and the Company shall enter into a Retention Stock Award agreement substantially in the form attached hereto as Exhibit B.

(iv) EXECUTIVE BENEFITS. During the Employment Period, except as otherwise expressly provided herein, the Executive shall be entitled to participate in all employee benefit, welfare, performance, fringe benefit and other plans, practices, policies and programs applicable to senior executives of the Parent.

(v) EXPENSES. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the policies of the Parent applicable to its senior executives of the Parent.

(vi) VACATION. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the plans, policies, programs and practices of the Parent applicable to senior executives of the Parent.

(vii) INDEMNITY. The Executive shall be indemnified by the Parent against claims arising in connection with the Executive's status as an employee, officer, director or agent of the Company, the Parent or their affiliates in accordance with the Parent's indemnity policies for its senior executives to the full extent permitted by the Parent's or Company's Charter and By-laws.

4. TERMINATION OF EMPLOYMENT. (a) DEATH OR DISABILITY. The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. If the Parent determines in good faith that the Disability of the Executive has occurred during the Employment Period (pursuant to the definition of Disability set forth below), it may give to the Executive written notice in accordance with Section 11(b) of this Agreement of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties. For purposes of this Agreement, "Disability" shall mean the absence of the Executive from the Executive's duties with the Company on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Parent or its insurers and acceptable to the Executive or the Executive's legal representative.

(b) CAUSE. The Company and the Parent may terminate the Executive's employment during the Employment Period for Cause. For purposes of this Agreement, "Cause" shall mean:

(i) the continued failure of the Executive to perform substantially the Executive's duties with the Company, including refusal to obey any lawful resolution of or direction by the Board which is consistent with her duties hereunder and not inconsistent with the terms of the Management Covenants (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Executive by the Chief Executive Officer of the Parent or the Board of Directors of the Parent that specifically identifies the manner in which the Chief Executive Officer or the Board believes that the Executive has not substantially performed the Executive's duties and the Executive has failed to cure such failure after a period of 30 days following the Executive's receipt of such written demand, or

(ii) the willful engaging by the Executive in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company or the Parent, or

(iii) the commission by the Executive of an act of fraud, embezzlement or misappropriation against the Company or involving the Company's property which is demonstrably injurious to the Company or the Parent, or

(iv) conviction of a felony or guilty or nolo contendere plea by the Executive with respect thereto, or

(v) a willful violation of the covenants contained in Section 8 hereof which is materially and demonstrably injurious to the Company or the Parent and is not remedied by the Executive within 30 days after receipt of notice thereof given by the Company or the Parent.

For purposes of this provision, no act or failure to act, on the part of the Executive, shall be considered "willful" unless it is done, or omitted to be done, by the Executive in bad faith or without reasonable belief that the Executive's action or omission was in the best interests of the Company and the Parent. Any act, or failure to act, based upon the instructions of the Chief Executive Officer of the Parent or the Board of Directors of the Parent shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Company. The Executive may be terminated for Cause only pursuant to a resolution affirmatively adopted by at least a majority of the entire Board of Directors of the Parent, at a meeting of the Board of Directors of the Parent called and held for such purpose (after reasonable notice is provided to the Executing and the Executive is given an opportunity to be heard before the Board of Directors of the Parent).

(c) GOOD REASON. The Executive's employment may be terminated by the Executive for Good Reason. For purposes of this Agreement, "Good Reason" shall mean in the absence of a written consent of the Executive:

(i) any failure by the Company or the Parent to comply with any of the provisions of Section 3(b) of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company or the Parent promptly after receipt of notice thereof given by the Executive, or

(ii) the Company's or the Parent's failure to comply with the terms of the Management Covenants, other than a breach which is remedied by the Company or the Parent not more than 30 days after receipt of "Notice of Alleged Breach" (as defined in the Management Covenants) given by the Executive in accordance with the terms of Section 10.8 of the Merger Agreement, or

(iii) the Company or the Parent's failure to comply in all material respects with the terms of Section 2 of the Escrow Agreement relating to the release or other terms and conditions of the Executive's escrowed shares of Parent Common Stock held for the benefit of the Executive, or

(iv) the Parent's requiring the Executive to be based at any office or location other than that provided in Section 3(a)(i)(C) hereof, or

(v) any purported termination by the Parent of the Executive's employment other than as expressly permitted by this Agreement, or

(vi) any failure by the Company to comply with and satisfy Section 10(c) of this Agreement.

For purposes of this definition of Good Reason, the Executive shall provide the Parent with written notice setting forth the basis for the Good Reason and give the Parent 30 days to cure such basis, provided that, with respect to clause (ii) above, the Executive's delivery of the Notice of Alleged Breach shall satisfy the 30 day notice requirement hereunder.

(d) NOTICE OF TERMINATION. Any termination by the Company or the Parent for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party or parties hereto given in accordance with Section 11(b) of this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than thirty days after the giving of such notice). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive, the Company or the Parent, respectively, hereunder or preclude the Executive, the Company or the Executive, respectively, from asserting such fact or circumstance in enforcing the Executive's, the Parent's or the Company's rights hereunder.

(e) DATE OF TERMINATION. "Date of Termination" means (i) if the Executive's employment is terminated by the Company or the Parent for Cause, or by the Executive for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein within 30 days of such notice, as the case may be, (ii) if the Executive's employment is terminated by the Company or the Parent other than for Cause or Disability, the Date of Termination shall be the date on which the Company or the Parent notifies the Executive of such termination and (iii) if the Executive's employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the Executive or the Disability Effective Date, as the case may be.

5. OBLIGATIONS OF THE COMPANY UPON TERMINATION. (a) GOOD REASON; OTHER THAN FOR CAUSE, DEATH OR DISABILITY. If, during the Employment Period, the Company or the Parent shall terminate the Executive's employment other than for Cause or Disability or the Executive shall terminate employment for Good Reason:

(i) the Company shall pay to the Executive the following amounts:

A. an immediate lump-sum payment equal to the sum of (1) the Executive's Annual Base Salary earned through the Date of Termination, (2) any Annual Bonus amounts earned but unpaid with respect to a calendar year ending prior to the Date of Termination, and (3) any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon), in each case to the extent not theretofore paid (the sum of the amounts described in clauses (1), (2) and (3), shall be hereinafter referred to as the "Accrued Obligations"); and

B. any additional severance amounts and benefits payable to senior executives of the Parent in accordance with the Parent's most favorable policies and procedures or, if greater, an immediate lump sum payment equal to the Executive's Annual Base Salary for the remainder of the Employment Period; and

(ii) any lockup agreement with respect to shares of Parent Common Stock to be entered into pursuant to Section 6 of the Registration Rights Agreement to be entered into by the Parent and the Executive, among others, pursuant to the Merger Agreement, shall expire; and

(iii) the Retention Stock Award shall immediately and fully vest and become free of restrictions without regard to the achievement of the Performance Goals; and

(iv) to the extent not theretofore paid or provided, the Company shall timely pay or provide to the Executive any other amounts or benefits required to be paid or provided or which the Executive is eligible to receive under any plan, program, policy or practice or contract or agreement of the Company or the Parent through the Date of Termination (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits").

(b) DEATH. If the Executive's employment is terminated by reason of the Executive's death during the Employment Period, this Agreement shall terminate without further obligations to the Executive's legal representatives under this Agreement, other than for payment of Accrued Obligations, and the timely payment or provision of Other Benefits and the continuation of the Retention Stock Award pursuant to its terms. In addition, all restriction on the transfer of Parent Common Stock held by the Executive, including any restrictions on transfer (but not any other conditions on issuance or release of such shares, except as provided in another applicable agreement) set forth in the Registration Rights Agreement, the Merger Agreement and any escrow agreement, shall immediately lapse in full. Accrued Obligations shall be paid to the Executive's estate or beneficiary, as applicable, a lump sum in cash within 30 days of the Date of Termination with the Parent's policies. With respect to the provision of Other Benefits, the term Other Benefits as utilized in this Section 5(b) shall include death benefits offered by the Parent as in effect on the date of the Executive's death.

(c) DISABILITY. If the Executive's employment is terminated by reason of the Executive's Disability during the Employment Period, this Agreement shall terminate without further obligations to the Executive, other than for payment of Accrued Obligations, the timely payment or provision of Other Benefits, and the continuation of the Retention Stock Award pursuant to its terms. In addition, all restrictions on the transfer of Parent Common Stock held by the Executive, including any restrictions on transfer (but not any other conditions on issuance or release of such shares, except as provided in another applicable agreement) set forth in the Registration Rights Agreement, the Merger Agreement and any escrow agreement, shall immediately lapse in full. Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination. With respect to the provision of Other Benefits, the term Other Benefits as utilized in this Section 5(c) shall include, and the Executive shall be entitled after the Disability Effective Date to receive, disability and other benefits as in effect at any time thereafter with respect to senior executives of the Parent.

(d) CAUSE; OTHER THAN FOR GOOD REASON. If the Executive's employment shall be terminated for Cause or the Executive terminates her employment without Good Reason during the Employment Period, this Agreement shall terminate without further obligations to the Executive other than the obligation to pay to the Executive (i) the Accrued Obligations (other than the Pro-Rata Bonus) and (ii) Other Benefits, in each case to the extent theretofore unpaid.

6. NON-EXCLUSIVITY OF RIGHTS. Except as specifically provided, nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Parent or the Company and for which the Executive may qualify, nor, subject to Section 11(g), shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or the Parent. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company or the Parent at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement.

7. FULL SETTLEMENT. The obligation of the Company and the Parent to make the payments provided for in this Agreement or the Retention Stock Award and otherwise to perform their obligations hereunder shall not be affected by any set off, counterclaim, recoupment, defense or other claim, right or action which the Company or the Parent may have against the Executive or others, except any arising pursuant to Section 9 of this Agreement. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and, such amounts shall not be reduced whether or not the Executive obtains other employment. The Parent agrees to pay, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest by the Company, the

Parent, the Executive or others of the validity or enforceability of, or liability under any provision of this Agreement or the Retention Stock Award or any guarantee of performance thereof (including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement), in the event the Executive prevails in such contest, subject to an aggregate maximum of $500,000 for all such contests.

8. NONCOMPETITION; PROPRIETARY INFORMATION; DEVELOPMENT. (a) While the Executive is employed by the Company or the Parent during the Employment Period and for a period ending on the later of (i) two years after the termination or cessation of such employment during the Employment Period, or (ii) the fourth anniversary of the Effective Date, the Executive will not directly or indirectly: (A) as an individual proprietor, partner, stockholder, officer, employee, director, joint venture, investor, lender, consultant, or in any other capacity whatsoever (other than as the holder of not more than five percent of the combined voting power of the outstanding stock of a publicly-held company, or two percent, as a passive investor, if a non-publicly held entity), develop, design, produce, market or sell (or assist any other person in developing, designing, producing, marketing or selling) products or services competitive with those developed, designed, produced, marketed or sold by the Company or the Parent while the Executive was employed by the Company or the Parent; or (B) recruit, solicit or hire any employee of the Company or the Parent (other than Hamid Ansari), or induce or attempt to induce any employee of the Company or the Parent to terminate his or her employment with, or otherwise cease his or her employment relationship with, the Company or the Parent, provided that it shall not be a violation of this Agreement for the Executive to hire her spouse. Notwithstanding the foregoing, in the event of the acquisition of all or substantially all of the business and or assets of the Company or the Parent, this Agreement may be assigned to the acquiror (as provided in Section 10(c)) and, following such acquisition, the Executive's continuing obligation not to compete shall be limited to the line of business of the Company or the Parent prior to the acquisition which is continued after the acquisition. The scope of such covenant shall not be expanded to include other lines of business, products or services of the entity surviving such acquisition, and if the Company's line of business is terminated following such acquisition, this covenant shall terminate.

(b) The Executive agrees that all information, whether or not in writing, of a private, secret or confidential nature concerning the business, business relationships or financial affairs of the Company and the Parent (collectively, "Proprietary Information") is and shall be the exclusive property of the Company and the Parent. By way of illustration, but not limitation, Proprietary Information may include inventions, products, processes, methods, techniques, formulas, compositions, compounds, projects, developments, plans, research data, clinical data, financial data, personnel data, computer programs, customer and supplier lists, and contacts at or knowledge of customers or prospective customers of the Company or the Parent. The Executive will not disclose any Proprietary Information to any person or entity other than employees of the Company or the Parent or use the same for any purpose (other than in the performance of her duties as an employee of the Company or the Parent) without written approval by the President and Chief Executive Officer of the Parent, either during or after her employment with the Company, unless and until such Proprietary Information has become public knowledge without fault by the Employee.

(c) The Executive agrees that all files, letters, memoranda, reports, records, data, sketches, drawings, laboratory notebooks, program listings, or other written, photographic, or other tangible material containing Proprietary Information, whether created by the Executive or others, which shall come into her custody or possession during her employment with the Company or the Parent, shall be and are the exclusive property of the Company and the Parent to be used by the Executive only in the performance of her duties for the Company or the Parent. All such materials or copies thereof and all tangible property of the Company or the Parent in the custody or possession of the Executive shall be delivered to the Company, upon the earlier of (A) a request by the Company or the Parent or (B) termination of her employment. After such delivery, the Executive shall not retain any such materials or copies thereof or any such tangible property.

(d) The Executive agrees that her obligation not to disclose or to use information and materials of the types set forth in paragraphs (b) and (c) above, and her obligation to return materials and tangible property, set forth in paragraph (c) above, also extends to such types of information, materials and tangible property of customers of the Company or the Parent or suppliers to the Company or the Parent or other third parties who may have disclosed or entrusted the same to the Company or the Parent, or to the Executive; PROVIDED, that such materials would otherwise be described in such paragraphs.

(e) The Executive will make full and prompt disclosure to the Company and the Parent of all inventions, improvements, discoveries, methods, developments, software, and works of authorship, whether patentable or not, which are created, made, conceived or reduced to practice by her or under her direction or jointly with others during her employment by the Company or the Parent which relate to the business of the Company or the Parent, whether or not during normal working hours or on the premises of the Company or the Parent (all of which are collectively referred to in this Agreement as "Developments"). The Executive agrees to assign and does hereby assign to the Company (or any person or entity designated by the Company or the Parent) all her right, title and interest in and to all Developments and all related patents, patent applications, copyrights and copyright applications; however, this Section 8(e) shall not apply to developments which do not relate to the present or planned business or research and development of the Company or the Parent and which are made and conceived by the Executive not during normal working hours, not on the Company's or the Parent's premises and not using the Company's or the Parent's tools, devices, equipment or Proprietary Information. The Executive understands that, to the extent this Agreement shall be construed in accordance with the laws of any state which precludes a requirement in an employee agreement to assign certain classes of inventions made by an employee, this Section 8(e) shall be interpreted not to apply to any invention which a court rules and/or the Company or the Parent agrees falls within such classes. The Executive also hereby waives all claims to moral rights in any Developments.

(f) The Executive agrees to cooperate fully with the Company and the Parent, both during and after her employment with the Company and the Parent, with respect to the procurement, maintenance and enforcement of copyrights, patents and other intellectual property rights (both in the United States and foreign countries) relating to Developments. The Executive shall sign all papers, including without limitation, copyright applications, patent applications, declarations, oaths, formal assignments, assignments of priority rights, and powers of attorney, which the Company or the Parent may deem reasonably necessary or desirable in order to protect its rights and interests in any Development. The Executive further agrees that if the Company and the Parent are unable, after reasonable effort, to secure the signature of the Executive on any such papers, any executive officer of the Company or the Parent shall be entitled to execute any such papers as the agent and the attorney-in-fact of the Executive, and the Executive hereby irrevocably designates and appoints each executive officer of the Company and the Parent as her agent and attorney-in-fact to execute any such papers on her behalf, and to take any and all actions as the Company or the Parent may deem necessary or desirable in order to protect its rights and interests in any Development, under the conditions described in this sentence.

(g) The Executive acknowledges and agrees that: (i) the purposes of the foregoing covenants are to protect the goodwill and Proprietary Information of the Company in connection with the acquisition of the Company by the Parent, and to prevent the Executive from interfering with the business of the Company as a result of or following termination of the Executive's employment with the Company or the Parent during the Employment Period; and (ii) that the foregoing covenants are being given in part in consideration for the consideration being received by the Executive as a result of the transactions contemplated by the Merger Agreement. The parties hereto agree that the Company and the Parent would be damaged irreparably in the event that any provision of this Section 8 was not performed in accordance with its terms or was otherwise breached and that money damages would be an inadequate remedy for any such nonperformance or breach. Accordingly, the Company and the Parent and their successors and assigns shall be entitled, in addition to other rights and remedies existing in their favor, to an injunction or injunctions to prevent any breach or threatened breach of any of such provisions and to enforce such provisions specifically (without posting a bond or other security). The parties hereto acknowledge that the covenants set forth in this Section 8 (except for the duration of the Non-Competition Period) are the standard covenants applicable to other senior executives of the Parent as of the date hereof and that, in the event the scope of the covenants applicable to such senior executives is hereafter modified in a manner that is less restrictive to such executives, this Section 8 shall be modified in the same manner and to the same extent.

9. DAMAGES (a) Subject to the last sentence of this Section 9, in the event that the Executive's employment hereunder is terminated, on or before January 1, 2003, (i) by the Executive without Good Reason (and other than for death or Disability), or (ii) or by Parent with Cause, the Executive shall, immediately upon demand by Parent at any time thereafter, pay to Parent in cash the amount indicated in the table below (the "Damages Payment"), beneath the column heading "Damages Payment," that is set forth opposite the "Period" in which the date of Executive's termination occurs; PROVIDED, that no Damages Payment will be due for any Termination Date occurring after January 1, 2003.

PERIOD NUMBER:		PERIOD IN WHICH TERMINATION DATE OCCURS:	DAMAGES PAYMENT:
0.	FROM: THROUGH:	Effective Date The date eighteen (18) months after the Effective Date	$35,000,000.00
I.	FROM: THROUGH:	The date eighteen (18) months and one (1) day after the Effective Date The date nineteen (19) months after the Effective Date	$30,000,000.00

II.	FROM: THROUGH:	The date nineteen (19) months and one (1) day after the Effective Date The date twenty (20) months after the Effective Date	$25,000,000.00
III.	FROM: THROUGH:	The date twenty (20) months and one (1) day after the Effective Date The date twenty-one (21) months after the Effective Date	$20,000,000.00
IV.	FROM: THROUGH:	The date twenty-one (21) months and one (1) day after the Effective Date The date twenty-two (22) months after the Effective Date	$15,000,000.00
V.	FROM: THROUGH:	The date twenty-two (22) months and one (1) day after the Effective Date The date twenty- three (23) months after the Effective Date	$10,000,000.00
VI.	FROM: THROUGH:	The date twenty-three (23) months and one (1) day after the Effective Date The date twenty- four (24) months after the Effective Date	$5,000,000.00

(b) The Executive's payment obligations under this Section 9 shall be full recourse, cash obligations and shall initially be secured by a pledge of the number of shares of Parent Common Stock received by the Executive in the Merger set forth on Exhibit C hereto, pursuant to a Pledge Agreement, in the form of Exhibit D hereto (the "Pledge Agreement"), to be entered into by the Executive and the Parent concurrently with the execution and delivery of this Agreement, provided that the Executive shall have the right to substitute cash collateral (including a letter of credit) (the "Collateral") which shall then be subject to the Pledge Agreement. If the net proceeds of the sale of shares subject to the Pledge Agreement or the Collateral (in addition to any other amount of substituted collateral) are insufficient to satisfy the Executive's payment obligation hereunder, the Executive shall be obligated to make up the shortfall out of her other personal assets.

(c) No damages shall be payable by the Executive and the Pledge Agreement shall terminate in the event the Executive's employment is terminated prior to the expiration of the Employment Period by reason of her death or Disability or by the Executive for Good Reason or by the Company for any reason other than for Cause. The Company agrees that any absence of the Executive from her duties under the Parent's leave of absence policies or the Family Medical Leave Act (with the leave provisions of the Family Medical Leave Act being deemed to be extended from 12 weeks to 16 weeks for purposes of this Agreement) or, with the consent of the Chief Executive Officer of Parent in his discretion, after 16 weeks of prior absence for reasons which are otherwise set forth in the Family Medical Leave Act, shall not be treated by the Parent as a termination of employment by the Executive without Good Reason or as a basis for a termination for Cause and, under such circumstances as such, no liquidated damages shall be payable by the Executive.

(d) The Damages Payment due hereunder shall be reduced (but never below zero) by the amount of any payment Parent may have already received pursuant to Section 9 of that certain Employment Agreement, of even date herewith, by and between Hamid Ansari and Parent (the "Other Employment Agreement"). Notwithstanding anything else contained herein, the provisions of this Section 9 shall constitute the Company's and the Parent's sole and exclusive remedy for a termination of the Executive's employment by the Executive in breach of this Agreement, and the Company shall not be entitled to monetary damages for any such termination after January 1, 2003; PROVIDED THAT, nothing herein shall derogate in any way from the provisions of the 2000 Retention Plan attached as Exhibit A hereto or the Release Conditions set forth on the Schedules to that certain Contingency Escrow Agreement of even date herewith.

10. SUCCESSORS. (a) This Agreement is personal to the Executive and without the prior written consent of the Parent shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company, the Parent and their respective successors and assigns.

(c) The Company and the Parent will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company or the Parent to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" and "Parent" shall mean the Company and the Parent as hereinbefore defined and any successor to their respective businesses and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise state.

11. MISCELLANEOUS. (a) This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

IF TO THE EXECUTIVE:

At the most recent address on
file at the Company.

IF TO THE PARENT OR THE COMPANY:

Sonus Networks, Inc.
5 Carlisle Road
Westford, MA 01886
Attention: General Counsel

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) The Company may withhold from any amounts payable under this Agreement such Federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) The failure by a party to insist upon strict compliance with any provision of this Agreement or the failure to assert any right such party may have hereunder, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) This Agreement and the provisions contained in it shall not be construed or interpreted for or against any party to this Agreement because that party drafted or caused that party's legal representative to draft any of its provisions.

(g) From and after the Effective Date this Agreement shall supersede any other employment, severance or change of control agreement between the parties with respect to the subject matter hereof, except as expressly provided herein.

(h) The Executive represents and warrants to the Company that (a) the execution, delivery and performance of this Agreement by the Executive does not and will not conflict with, breach, violate or cause a default under any contract, agreement, instrument, order, judgment or decree to which the Executive is a party or by which the Executive is bound, (b) other than any agreements with the Company or the Parent and the noncompetition agreement entered into by the Executive with Hewlett Packard, dated as of December 31, 1998, the Executive is not a party to or bound by any employment agreement, noncompetition agreement or confidentiality agreement with any other person or entity, (c) upon the execution and delivery of this Agreement by the Company and subject to the consummation of the Merger, this Agreement shall be the valid and binding obligation of the Executive, (d) this Agreement has been the subject of arm's length negotiations between the parties, (e) the Executive has independently reviewed this Agreement with legal counsel, and (f) the Executive has the requisite experience and sophistication to understand, interpret and agree to the particular language of this Agreement.

(i) The Company and the Parent hereby represent and warrant that (a) such entity has the authority to enter into this Agreement and (b) upon the execution and delivery of this Agreement by the Company and the Parent and subject to the consummation of the Merger, this Agreement shall be the valid and binding obligation of the Company and the Parent.

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization from their respective Boards of Directors, each of the Company and the Parent has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

/s/ Anousheh Ansari

Anousheh Ansari

SONUS NETWORKS, INC.

By /s/ Stephen J. Nill

Name:
Title:

TELECOM TECHNOLOGIES, INC.

By /s/ Anousheh Ansari

Name:
Title:

SCHEDULE 3(II)

Board of Directors of:

Children Advocacy Center
Society of Iranian Professionals
Technology Business Council (TBC)
Child Foundation

Other activities lectures/speaking engagements to several different organizations and societies:

About 2 a month

EXHIBIT C

The number of shares of Parent Common Stock with a "Fair Market Value" (as defined in the Pledge Agreement) equal to $35 million.

Exhibit 10.20

OFFICE LEASE AGREEMENT

STATE OF TEXAS

COUNTY OF DALLAS

THIS LEASE AGREEMENT made and entered into as of the 14th day of November 2000, by and between the Landlord and Tenant hereinafter named.

W I T N E S S E T H:

1. Definitions and Basic Provisions. The following definitions and basic provisions shall, be used in conjunction with and limited by the reference thereto in the provisions of this lease:

(a) "Landlord": TR Lookout Partners, Ltd.

(b) "Tenant": telecom technologies, inc.

(c) "Premises": Lookout Plaza Phase I
1301 E. Lookout Drive, Suite 3000
Richardson Texas 75080

as generally outlined on the plan attached hereto as Exhibit "A." The term "rentable area" as used herein, shall refer to the sum of (a) the entire area included within the Premises, being the area bounded by the Interior of the exterior wall or walls of the Building, the exterior of all walls separating the Premises from any public corridors or other public areas, and, for multi-tenant floors, the centerline of all walls separating the Premises from other areas leased or to be leased to other tenants, plus (b) a pro rata portion (or all, in the case of a single tenant floor) of the, area covered by the elevator lobbies, columns, projections, vertical penetrations, other structural portions, other common areas, and other service areas situated on such floor. Upon completion of the leasehold improvements described on attached Exhibit "C", the rentable area of the Premises shall be measured by Landlord's architect in accordance with the BOMA method hereafter set forth. The rentable area of the Premises shall be calculated in accordance with the methods of measuring rentable areas described in the standard method for measuring floor area in office buildings, ANSI Z65.1-1996, as promulgated by the Building Owners and Managers Association (BOMA) International. The estimates of rentable area within the Premises and within the Building as set forth herein shall be revised if Landlord's architect determines such estimate to be inaccurate, or if there is a change after the "Commencement Date" (hereinafter defined) in either the rentable area of the Premises or the Building, and the terms of this lease shall be adjusted accordingly. The rentable area in the leased Premises has been estimated on the basis of the foregoing definition to be 109,966 square feet of rentable area. The Premises are divided into two (2) portions, approximately 91,684 square feet of rentable area (the "First Portion") outlined on the plan attached hereto as Exhibit "A", and approximately 18,282 square feet of rentable area (the Second Portion") also outlined on the plan attached hereto as Exhibit "A." Landlord and Tenant both agree to the following occupancy and takedown schedule: On September 1, 2001 Tenant will occupy the First Portion; and on September 1, 2003, Tenant will occupy the Second Portion. Notwithstanding the foregoing, in the event Tenant occupies the Second Portion prior to September 1, 2003, paragraphs "(e)" and "(f)" below shall be modified so that the basic rental and the monthly rental installment reflect the revised occupancy date for the Second Portion. In no event will the occupancy date for the Second Portion be later than September 1, 2003. Each of the above occupancy dates shall be subject to Substantial Completion (as defined herein) with respect to the tenant improvements regarding such portion. Any delay in completion of such tenant improvements shall delay Tenant's obligation to occupy such space. The total rentable area of the Building is estimated for all purposes herein to be 155,092 square feet.

(d) Lease term: A period of 84 months, commencing on September 1, 2001 (the "Commencement Date") and ending on August 31, 2008.

(e) Basic rental: $14,902,174.00.

(f) Monthly rental installment:

Time Period	Rentable Area	Monthly Rental Installment	Annual Rental Rate Per Square Foot
Monthly from September 1, 2001 through August 31, 2003	91,684	$148,986.50	$19.50
Monthly from September 1, 2003 through August 31, 2006	109,966	$178,694.75	$19.50
Monthly from September 1, 2006 through August 31, 2008	109,966	$203,876.96	$22.25

(g) Security deposit: $0.00

(h) Permitted use: Office, including laboratory and testing facilities, but specifically excluding the practice of law (in the event Haynes and Boone is a tenant in the Building) except for Tenant's "in-house" attorneys.

(i) "Land": The real property upon which the Project is located, described more particularly on "Exhibit E" attached hereto and made a part hereof.

(j) "Building": Lookout Plaza Phase I located at 1301 E. Lookout Drive, Richardson, Texas 75080.

(k) "Project": Lookout Plaza located at 1301 E. Lookout Drive, Richardson, Texas 75080.

2. Lease Grant. Before the Commencement Date, Landlord shall construct the Building and install in the First Portion of the Premises the items to be constructed or installed by Landlord pursuant to the provisions of the Work Letter Agreement attached as Exhibit "C" hereto. On or before September 1, 2003, Landlord shall construct and install in the Second Portion of the Premises the items to be constructed or installed by Landlord pursuant to the provisions of the Work Letter Agreement. If for any reason Landlord cannot deliver the First Portion of the Premises to Tenant by the Commencement Date, this lease shall not be void or voidable, and Landlord shall not be liable for any loss or damage resulting therefrom, except that the rent payable under Paragraph 1(f) hereof shall be waived for the period between the Commencement Date and the date on which Landlord can deliver possession. If for any reason Landlord cannot deliver the Second Portion of the Premises to Tenant by September 1, 2003, this Lease shall not be void or voidable, and Landlord shall not be liable for any loss or damage resulting therefrom, except that the rent payable under Paragraph 1(f) hereof applicable to the Second Portion shall be waived for the period between September 1, 2003, and the date on which Landlord can deliver possession of the Second Portion. No delay in the delivery of possession shall extend the lease term. Tenant may not enter or occupy the pertinent portion of the Premises until such Portion of the Premises is tendered by Landlord, unless Tenant's entry

relates to construction work therein. If for any reason the First Portion of the Premises is not ready for occupancy on or before May 1, 2002, Tenant may, at its option, cancel and terminate this lease by written notice to Landlord delivered on or before May 15, 2002, in which event neither party shall have any further rights or obligations hereunder, except that Landlord will pay back to Tenant the "Prepaid Rent" (hereinafter defined). Any entry of the Premises before the date specified in this Paragraph 2 may be made only with Landlord's written consent. The Premises shall be deemed completed and possession delivered upon (i) completion of the items to be constructed and installed by Landlord pursuant to the provisions of the Work Letter Agreement attached as Exhibit "C", and (ii) the insurance of a certificate of occupancy by the City of Richardson (collectively "Substantial Completion") other than completion of minor finish items, if any, which do not materially interfere with Tenant's occupancy. Upon taking of possession of the Premises, Tenant shall be deemed to have accepted such as suitable for its purposes and shall be deemed to have waived any defects in the Premises and in the Building, except for the completion of any minor finish items which do not materially interfere with Tenant's occupancy (the "punch list items"). Tenant shall have a period of thirty (30) days from the date of actual occupancy of the Premises to compile and deliver to Landlord the punch list items which Landlord agrees to use its reasonable efforts to complete or correct within ninety (90) days of receipt of said list from Tenant.

3. Rent. In consideration of this lease, Tenant promises and agrees to pay Landlord the basic rental (as defined in Paragraph 1(e) hereof) in monthly installments, as set forth in Paragraph 1(f) hereof, and the additional rent as determined in accordance with Exhibit "B", without deduction, set off, notice or demand.

One monthly installment of basic rental, to be applied to the first monthly basic rental installment accruing hereunder, totaling $147,621.50 ("Prepaid Rent"), shall be payable by Tenant to Landlord contemporaneously with the execution hereof. On the first day of the second month following the date on which basic rental begins to accrue under this lease, Tenant shall begin paying the scheduled monthly rental installment without demand and shall continue paying such monthly rental installments on or before the first day of each succeeding calendar month during the term hereof. The monthly rental installment for any fractional month at the beginning or the end of the lease term shall be prorated.

If the monthly rental installment is not received by the Landlord on or before the 5th day of the month for which such monthly rental installment is due, a service charge of 4% of the monthly rental installment owed shall become due and payable in addition to the monthly rental installment owed. Such service charge is for the purpose of reimbursing Landlord for the extra costs and expenses incurred in connection with the handling and processing of late monthly rental installment payments.

The obligation of Tenant to pay rent is an independent covenant, and no act or circumstance whatsoever, whether such act or circumstance constitutes a breach of covenant by Landlord or not, shall release Tenant of the obligation to pay rent.

4. Rental Escalation. See Exhibit "B" attached hereto and incorporated as a part hereof.

5. Services.

(a) Landlord agrees to furnish Tenant while occupying the Premises, at Landlord's sole cost and expense: (i) hot and cold water at those points of supply provided for general use of tenantry; (ii) electrical current for Tenant's use and occupancy of the Premises to the extent reasonably deemed to be standard in comparable suburban "Class A" low rise office buildings in Richardson, Texas, provided however, that all costs for extraordinary or unusual demand for electrical service shall be borne by Tenant; (iii) heating and air conditioning at such times as Landlord normally furnishes such services to all tenants of the Project and at such temperatures and in such amounts as are reasonably provided in comparable suburban "Class A" low rise office buildings in Richardson, Texas; (iv) janitor service on a daily basis excluding holidays and weekends and elevator service; (v) replacement of Building standard light bulbs and tubes.

(b) Landlord does not warrant that any of such specified services will be free from interruption or stoppage, but nevertheless Landlord shall use reasonable diligence to resume any such interrupted or stopped service. Anything to the contrary notwithstanding, no failure, to any extent, to furnish such services or any stoppage or interruption of these defined services shall render Landlord liable in any respect for damages to either person, property or business, nor shall any such failure, interruption or stoppage of such services be deemed or construed as an eviction, actual or constructive, of Tenant nor, except as set forth below, work an abatement of rent nor relieve Tenant from the obligation to fulfill any covenant or agreement contained in this lease. If (a) the interruption or stoppage of the services to be provided by Landlord under Subparagraph 5(a) above is due to the negligent or willful failure of Landlord to use reasonable diligence during normal hours to resume any such interrupted or stopped service, (b) the interruption was not caused in whole or substantial part by Tenant, and (c) the interruption or stoppage caused the Premises to be uninhabitable for at least seventy-two (72) hours after written notice thereof from Tenant to Landlord, then during the period the Premises is uninhabitable, the rental shall be abated as Tenant's sole remedy. Landlord may interrupt or stop such services when reasonably needed for emergencies, repairs and maintenance and shall not thereby be deemed negligent or willful or in violation of this lease, so long as Landlord uses reasonable diligence to resume such interrupted or stopped services thereafter.

6. Leasehold Improvements. See Exhibit "C".

7. Use. Tenant shall use the Premises only for the permitted use (as defined in Paragraph 1(h) hereof). Tenant will not occupy or use the Premises, or permit any portion of the Premises to be occupied or used for any business or purpose other than the permitted use or for any use or purpose which is unlawful in part or in whole or deemed to be disreputable in any manner or extrahazardous on account of fire, nor permit anything to be done which will in any way increase the rate of fire insurance on the Building or contents; and in the event that, by reason of acts of Tenant, there shall be any increase in the rate of insurance on the Building or contents created by Tenant's acts or conduct of business and then such acts of Tenant shall be deemed to be an event of default hereunder and Tenant hereby agrees to pay to Landlord the amount of such increase on demand and acceptance of such payment shall not constitute a waiver of any of Landlord's other rights provided herein. Tenant will conduct its business and control its agents, employees and invitees in such a manner as not to create any nuisance, nor interfere with, annoy or disturb other tenants or Landlord in management of the Building. Tenant will maintain the Premises in a clean, healthful and safe condition and will comply with all laws, ordinances, orders, rules and regulations (state, federal, municipal and other agencies or bodies having any jurisdiction thereof) with reference to use, condition or occupancy of Premises. Tenant's obligation to comply with all laws specifically includes any and all laws relating to environmental hazards and, as set forth in Subparagraph 8(c) hereof, to accessibility by persons with disabilities. Tenant will not, without the prior written consent of Landlord, such consent not to be unreasonably withheld, paint, install lighting, window coverings or decoration, or install any signs, window or door lettering or advertising media of any type on or about the Premises or any part thereof. Should Landlord agree in writing to any of the foregoing items in the preceding sentence, Tenant will maintain such permitted items in good condition and repair at all times.

8. Repairs and Maintenance and Compliance with Accessibility Laws

(a) By Landlord: Landlord shall maintain only the roof, foundation, heating and air conditioning systems, common areas, plumbing, elevators (if any), fire protection sprinkler system (if any), the structural soundness of the exterior walls, the paving outside the Building, and the landscaping in good repair and condition, except for reasonable wear and tear. Landlord shall be responsible for pest eradication. If such pests result from Tenant's use and occupancy of the Premises, Tenant shall pay to Landlord on demand the cost for such eradication. Tenant shall give immediate written notice to Landlord of the need for repairs or corrections and Landlord shall proceed promptly to make such repairs or corrections. Landlord's liability hereunder shall be limited to the cost of such repairs or corrections.

(b) By Tenant: Tenant shall at its expense and risk maintain the Premises and related facilities in good repair and condition. Tenant will not in any manner deface or injure the Building, the Premises or related facilities and will pay the cost of repairing any damage or injury done by Tenant or Tenant's agents, employees or invitees. Tenant shall throughout the term of this lease take good care of the Building, the Premises and related facilities and keep them free from waste and nuisance of any kind. If Tenant shall fail to make any repair required hereunder (including all necessary replacements) within fifteen (15) days after written notification to do so, or thirty (30) days if Tenant has commenced the repair and is diligently pursuing its completion, Landlord may at its option make such repair, and Tenant shall, upon demand therefor, pay Landlord for the cost thereof together with interest on any such cost which remains unpaid following such demand at the rate of ten percent (10%) per annum until paid.

(c) By Landlord and Tenant: Tenant shall at its expense and risk cause the Premises and related facilities to be in compliance with the requirements of the Americans With Disabilities Act and all other pertinent laws relating to public access ("Accessibility Laws"). Landlord shall at its expense and risk cause the common areas of the Building to comply with Accessibility Laws. Any extraordinary or atypical requirements imposed by Accessibility Laws relating to the nature of Tenant's business shall be Tenant's responsibility and Tenant shall bear the risk and expense of compliance with such extraordinary or atypical requirements. Tenant acknowledges that Landlord's responsibility is to insure that common areas of the Building comply with Accessibility Laws assuming the imposition of requirements typical for a suburban office building.

9. Alterations and Improvements. Tenant will not make or allow to be made any alterations or physical additions in or to the Premises without the prior written consent of Landlord, which consent shall not be unreasonably withheld as to nonstructural alterations. Landlord may require, as a condition to granting its consent to any such alterations or physical additions, that Tenant agree to remove such alterations or physical additions at the end of the lease term and restore the Premises to the condition in which the same existed before such alterations or physical additions were made. At the end or other termination of this lease, Tenant shall deliver up the Premises with all improvements located thereon (except as otherwise herein provided) in good repair and condition, reasonable wear and tear excepted, and shall deliver to Landlord all keys to the Premises. The cost and expense of any repairs necessary to restore the condition of the Premises to such condition in which they are to be delivered to Landlord shall be borne by Tenant. All permanent alterations, additions or improvements made in or upon the Premises, either by Landlord or Tenant, shall be Landlord's property on termination of this lease and shall remain on the Premises without compensation to Tenant. All temporary alterations, furniture, movable trade fixtures and equipment installed by Tenant may be removed by Tenant at the termination of this lease if Tenant so elects, and shall be so removed if required by Landlord, or if not so removed shall at the option of Landlord, become the property of Landlord. All such installations, removals and restoration shall be accomplished in good workmanlike manner so as not to damage the Premises or the primary structure or structural qualities of the Building or the plumbing, electrical lines or other utilities.

10. Common Areas. The use and occupation by Tenant of the Premises shall include the use in common with others entitled thereto of the common areas, parking areas, service roads, loading facilities, sidewalks, and other facilities as may be designated from time to time by Landlord, subject, however, to the terms and conditions of this agreement and to reasonable rules and regulations for the use thereof as prescribed from time to time by Landlord.

All common areas described above shall at all times be subject to the exclusive control and management of Landlord, and Landlord shall have the right from time to time to establish, modify and enforce reasonable rules and regulations with respect to all facilities and areas mentioned in this Article. Landlord shall have the right to construct, maintain, and operate lighting facilities on all such areas and improvements; to police same; from time to time to change the area, level, location and arrangement of parking areas and other facilities hereinabove referred to; and subject to Exhibit "F" hereof, to restrict parking by tenants, their officers, agents, and employees to employee parking areas.

All common areas and facilities not within the Premises, which Tenant may be permitted to use and occupy, are to be used and occupied under a revocable license, and if the amount of such areas be diminished, Landlord shall not be subject to liability nor shall Tenant be entitled to any compensation or diminution or abatement of rent, nor shall such diminution of such areas be deemed constructive or actual eviction.

11. Assignment and Subletting. If Tenant desires to assign this lease or sublet the Premises or any part thereof, Tenant shall give Landlord written notice of such desire together with the name of the proposed assignee or sublessee, a detailed description of its business, and current financial information about it in sufficient detail to allow Landlord to assess the financial condition of such proposed assignee or sublessee. Landlord shall not unreasonably withhold its consent to any assignment or subletting. Landlord will consider the financial condition of the proposed assignee and/or sublessee and will compare such financial condition to Tenant's financial condition as of December 31, 2000, as reflected in Tenant's audited financial statement(s). Tenant shall give such notice and information to Landlord at least 30 days prior to the date on which Tenant desires to make such assignment or sublease. For the purposes hereof, transfer of more than half of the stock or other voting control of Tenant shall be deemed to constitute an assignment of this Lease. Landlord shall, within 10 days following receipt of such notice, notify Tenant in writing that Landlord elects either (i) to permit Tenant to assign this lease or sublet such space, or (ii) refuse to permit Tenant to assign this lease or sublet such space. If Landlord should fail to notify Tenant in writing of such election within such thirty-day period, Landlord shall be deemed to have elected (ii) above. Consent by Landlord to one or more assignments or sublettings shall not operate as a waiver of Landlord's rights as to any subsequent assignments and sublettings. Tenant shall pay all costs incurred by Landlord in connection with the foregoing provisions including without limitation legal fees, construction costs to reconfigure the Premises, and credit checks. Notwithstanding any assignment or subletting, Tenant and any guarantor of Tenant's obligations under this lease shall at all times remain fully responsible and liable for the payment of the rent herein specified and for compliance with all of Tenant's other obligations under this lease. Moreover, if the rental or other consideration (or a combination of the rental and any bonus or other consideration therefor or incident thereto) due and payable to Tenant by an assignee or sublessee exceeds the rental payable under this lease (appropriately prorated in the case of a sublease of less than all of the Premises), then Tenant shall be bound and obligated to pay Landlord (after deduction of the standard brokerage commission paid to the broker representing the pertinent sublessee, if in fact such a commission is paid, and any alteration costs) fifty percent (50%) of all such excess rental and other excess consideration within ten (10) days after receipt thereof by Tenant. Finally,

upon any assignment or subletting all rentals paid to Tenant by an assignee or sublessee shall be received by Tenant in trust for Landlord, to be forwarded immediately to Landlord. If Landlord transfers and assigns its interest in this lease and the Building containing the Premises, Landlord shall thereby be released from any further obligations hereunder, and Tenant agrees to look solely to such successor in interest of the Landlord for performance of such obligations. Tenant shall not mortgage, pledge or otherwise encumber its interest in this lease or in the Premises. Notwithstanding anything contained herein to the contrary, Tenant agrees not to sublease any of its Premises or assign its lease to any lawyers or law firms in the event Haynes and Boone is a tenant in the Building.

12. Indemnity. Landlord shall not be liable for and Tenant will indemnify and save harmless Landlord of and from all fines, suits, claims, demands, losses and actions (including attorney's fees) for any injury to person or damage to or loss of property on or about the Premises caused by the negligence or misconduct or breach of this lease by Tenant, its agents, employees, sublessees, invitees or by any other person entering the Building, the Premises, or related facilities under express or implied invitation of Tenant, or arising out of Tenant's use of the Building, the Premises, or related facilities. Landlord shall not be liable or responsible for any loss or damage to any property or death or injury to any person occasioned by theft, fire, Act of God, public enemy, injunction, riot, strike, insurrection, war, court order, requisition of any governmental body or authority, by other tenants of the Building or related facilities or any other matter beyond control of Landlord, or for any injury or damage or inconvenience which may arise through repair or alteration of any part of the building, the Premises or related facilities, or failure to make repairs or from any cause whatsoever except Landlord's gross negligence. Tenant shall, at all times during the term of this lease, maintain a policy or policies of insurance with the premiums thereon fully paid in advance, in amounts and with insurance companies approved by Landlord insuring Tenant's obligations to Landlord under Paragraph 12 of this lease. Tenant shall not be liable for and Landlord will indemnify and save harmless Tenant of and from all fines, suits, claims, demands, losses and actions (including attorney's fees) for any injury to person or damage to or loss of property on or about the common areas of the Building caused by the gross negligence or willful misconduct or breach of this lease by Landlord, its agents or employees.

13. Mortgages. Tenant accepts this lease subject to any deeds of trust, security interests or mortgages which might now or hereafter constitute a lien upon the Building or improvements therein, the Premises, or related facilities, and to zoning ordinances and other building and fire ordinances and governmental regulations relating to the use of the property. Tenant shall at any time hereafter, on demand, execute any instruments, releases or other documents that may be required by any mortgagee for the purpose of subjecting and subordinating this lease to the lien of any such deed of trust, security interest or mortgage. With respect to any deed of trust, security interest or mortgage hereafter constituting a lien on the Building or improvements therein, the Premises, or related facilities. Landlord, at its sole options, shall have the right to waive the applicability of this Paragraph 13 so that this lease will not be subject and subordinate to any such deed of trust, security interest or mortgage.

14. Insurance. Landlord shall, at all times during the term of this lease maintain a policy or policies of insurance with the premiums thereon fully paid in advance, issued by and binding upon some solvent insurance company, insuring the Building against loss or damage by fire, explosion, or other hazards and contingencies for the full insurable value thereof; provided that Landlord shall not be obligated to insure any furniture, equipment, machinery, goods or supplies not covered by this lease which Tenant may bring or obtain upon the Premises, or any additional improvements which Tenant may construct thereon.

Tenant shall, at all times during the term of this lease, maintain a policy or policies of insurance, with the premiums thereon fully paid in advance, issued by and binding upon insurance companies approved by Landlord, such approval not to be unreasonably withheld, insuring any furniture, equipment, machinery, goods or supplies which Tenant may bring or obtain upon the Premises, and any additional improvements which Tenant may construct on the Premises against loss or damage by fire, explosion or other hazards and contingencies for the full insurable value thereof. Tenant shall also, at all times during the term of this lease, maintain a policy or policies of insurance, with the premiums thereon fully paid in advance, for comprehensive general and contractual liability insurance against claims for personal injury, death and property damage occurring in or about the Premises, such insurance to afford protection to the limits of (i) not less than $1,000,000.00 in respect of injury to or death of any number of persons arising out of any one occurrence, and not less than $2,000,000.00 in the aggregate, and (ii) $1,000,000.00 in respect of any instance of property damage. Such policy or policies shall be issued by and binding upon insurance companies approved by Landlord, such approval not to be unreasonably withheld.

Tenant shall deliver to Landlord, prior to the Commencement Date, certificates of such insurance and shall, at all times during the term of this lease, deliver to Landlord upon request true and correct copies of such insurance policies. The comprehensive general and contractual liability policy described above shall (i) name Landlord as an additional insured, (ii) insure performance of the indemnities of Tenant contained in this lease, and (iii) be primary coverage, so that any insurance coverage obtained by Landlord shall be in excess thereof. Each insurance policy obtained by Tenant shall provide that it will not be canceled or reduced in coverage without 30 days prior written notice to Landlord. Tenant shall deliver to Landlord certificates of renewal at least 5 days prior to the expiration date of each such policy and copies of new policies at least 30 days prior to terminating any such policies.

15. Inspection. Except as set forth below but always in the case of an emergency, Landlord or representatives shall have the right to enter into and upon any and all parts of the Premises at reasonable hours to (i) inspect same or clean or make repairs or alterations or additions as Landlord may reasonably deem necessary (but without any obligation to do so, except as expressly provided for herein), or (ii) show the Premises to prospective tenants, purchasers or lenders, and Tenant shall not be entitled to any abatement or reduction of rent by reason thereof, nor shall such be deemed to be an actual or constructive eviction. Notwithstanding the above, except in the case of an emergency, Landlord acknowledges and agrees that Tenant intends to maintain certain "secured" areas within the Premises relating to its business and trade secrets and Landlord shall only be permitted within such areas after giving no less than 24 hours prior written notice to Tenant and Landlord must be accompanied in any such areas by a representative of Tenant.

16. Condemnation. If, during the term of this lease, or any extension or renewal thereof, all of the Premises should be taken for any public or quasi-public use under any governmental law, ordinance or regulation or by right of eminent domain or by private purchase in lieu thereof, this lease shall terminate and the rent shall be abated during the unexpired portion of this lease, effective on the date physical possession is taken by the condemning authority, and Tenant shall have no claim against Landlord for the value of any unexpired term of this lease.

In the event a portion but not all of the Premises shall be taken for any public or quasi-public use under any governmental law, ordinance or regulation, or by right of eminent domain or by private sale in lieu thereof and the partial taking or condemnation shall render the Premises unsuitable for Tenant's business, then Landlord shall have the option, in its sole discretion, of terminating this lease, or, at Landlord's sole risk and expense, restoring and reconstructing the Premises to the extent necessary to make same reasonably tenantable. Should Landlord elect to restore, the lease shall continue in full force and effect with the rent payable during the unexpired portion of this lease adjusted to such an extent as may be fair and reasonable under the circumstances, and Tenant shall have no claim against Landlord for the value of any interrupted portion of this lease.

In the event of any condemnation or taking, total or partial, Tenant shall not be entitled to any part of the award or price paid in lieu thereof, and Landlord shall receive the full amount of such award or price, Tenant hereby expressly waiving any right or claim to any part thereof.

17. Fire or Other Casualty. In the event that the Premises should be totally destroyed by fire, tornado or other casualty or in the event the Premises or the Building should be so damaged that rebuilding or repairs cannot be completed within 180 days after the date of such damage, either Landlord or Tenant may at its option terminate this lease by delivering written notice thereof to the

other party within twenty (20) days following such damage, in which event the rent shall be abated during the unexpired portion of this lease effective with the date of such damage. In the event the Premises should be damaged by fire, tornado or other casualty covered by Landlord's insurance, but only to such extent that rebuilding or repairs can be completed within 180 days after the date of such damage, or if the damage should be more serious but neither Landlord nor Tenant elects to terminate this lease, in either such event Landlord shall within thirty (30) days after the date of such damage commence to rebuild or repair the Premises and shall proceed with reasonable diligence to restore the Premises and Building to substantially the same condition in which they were immediately prior to the happening of the casualty, except that Landlord shall not be required to rebuild, repair or replace any part of the furniture, equipment, fixtures and other improvements, except Tenant improvements made by Landlord, which may have been placed by Tenant or other tenants within the Building or the Premises, or related facilities. In the event that the Premises are totally untenantable, Landlord shall abate the rent during the time Premises are unfit for occupancy. If the Premises are not totally untenantable, Landlord shall allow Tenant a fair diminution of rent during the time the Premises are partially unfit for occupancy. In the event any mortgagee under a deed of trust, security agreement or mortgage elects pursuant to a right granted therein that insurance proceeds be used to retire the mortgage debt, Landlord shall have no obligation to rebuild and this lease shall terminate upon notice to Tenant which shall be given promptly to Tenant after Landlord has been notified by mortgage. Any insurance which may be carried by Landlord or Tenant against loss or damage to the Project or to the Premises shall be for the sole benefit of the party carrying such insurance and under its sole control.

18. Holding Over. Should Tenant, or any of its successors in interest, hold over the Premises, or any part thereof, after the expiration of the term of this lease, unless otherwise agreed in writing, such holding over shall constitute and be construed as tenancy at sufferance only. Such tenancy shall be at a daily rental equal to 1/30th of the higher of (i) 150% of the sum of the monthly rental installment plus the most current rental adjustment which may have been made thereto pursuant to Paragraph 4 hereof, or (ii) 150% of the current rate for the Premises being quoted by Landlord to prospective tenants. The inclusion of the preceding sentence shall not be construed as Landlord's consent for the Tenant to hold over. In the event of any unauthorized holding over, Tenant shall also indemnify Landlord against all claims for damages by any other tenant to whom Landlord may have leased all or any part of the Leased Premises effective upon the termination of this lease. Notwithstanding the foregoing during the first month of any holdover, and only during that first month, the daily rental rate shall be equal to 1/30th of 110% of the sum of the monthly rental installment plus the most current rental adjustment which may have been made thereto pursuant to Paragraph 4 hereof.

19. Taxes on Tenant's Property. Tenant shall be liable for all taxes levied or assessed against personal property, furniture or fixtures placed by Tenant in the Premises. If any such taxes for which Tenant is liable are levied or assessed against Landlord or Landlord's property and if Landlord elects to pay the same or if the assessed value of Landlord's property is increased by inclusion of personal property, furniture or fixtures placed by Tenant in the Premises, and Landlord elects to pay the taxes based on such increase, Tenant shall pay to Landlord upon demand that part of such taxes for which Tenant is primarily liable hereunder.

20. Events of Default. The following events shall be deemed to be events of default by Tenant under this lease:

(a) Tenant shall fail to pay any monthly rental installment or any portion of the basic rental hereby reserved when due, and shall not cure such failure within ten (10) days after written notice thereof to Tenant;

(b) Tenant shall fail to comply with any term, provision or covenant of this lease, other than the payment of rent, or shall fail to comply with any term, provision or covenant in any other agreement with Landlord affecting the Premises, and shall not cure such failure within thirty (30) days after written notice thereof to Tenant;

(c) Tenant shall make an assignment for the benefit of creditors;

(d) Tenant shall file a petition under any section or chapter of the Federal Bankruptcy Code, as amended, or under any similar law or statute of the United States or any State thereof, or Tenant shall be adjudged bankrupt or insolvent in any proceeding filed against Tenant thereunder and such adjudication shall not be vacated or set aside within thirty (30) days;

(e) A receiver or Trustee shall be appointed for all or substantially all of the assets of Tenant and such receivership shall not be terminated or stayed within thirty (30) days; or

(f) Tenant shall assign this lease or sublet the Premises without Landlord's consent, where Landlord's consent is required under Section 11.

21. Remedies. Upon the occurrence of any event of default specified in Paragraph 20 hereof, Landlord shall have the option to pursue any one or more of the following remedies without any notice or demand whatsoever:

(a) Terminate this lease in which event Tenant shall immediately surrender the Premises to Landlord, and if Tenant fails to do so, Landlord may, without prejudice to any other remedy which it may have for possession or arrearages in rent, enter upon and take possession and expel or remove Tenant and any other person who may be occupying such Premises or any part thereof, without being liable for prosecution or any claim of damages therefor. Tenant agrees to pay to Landlord on demand the amount of all loss and damage which Landlord may suffer by reason of such termination, including (i) the cost of recovering the Premises (including attorneys' fees and costs of suit), (ii) the cost of removing and storing any personal property, (iii) the unpaid rent earned at the time of termination, plus interest thereon at the rate described in Paragraph 35, (iv) the present value (discounted at the rate of six percent (6%) per annum) of the balance of the basic rental and additional rental for the remainder of the lease term less the present value (discounted at the same rate) of the fair market rental value of the Premises for such period, taking into account the period of time the Premises will remain vacant until a new tenant is obtained, and the cost to prepare the Premises for occupancy and the other costs (such as costs of repairs or remodeling, leasing commissions and attorneys' fees) to be incurred by Landlord in connection therewith, and (v) any other sum of money and damages owed by Tenant to Landlord under this lease;

(b) Enter upon and take possession of the Premises and expel or remove Tenant and any other person who may be occupying the Premises or any part thereof, without being liable for prosecution or any claim for damages therefor, and if Landlord so elects, relet the Premises on such terms as Landlord shall deem advisable and receive the rent thereof. Tenant agrees to pay to Landlord on demand any deficiency in basic rental that may arise by reason of such reletting;

(c) Enter upon the Premises, without being liable for prosecution or any claim for damages therefor, and do whatever Tenant is obligated to do under the terms of this lease, and tenant agrees to reimburse Landlord on demand for any expenses which Landlord may incur in thus effecting compliance with Tenant's obligations under this lease, and Tenant further agrees that Landlord shall not be liable for any damages resulting to the Tenant from such action; and

(d) Landlord may, and is hereby entitled and authorized, without any notice to Tenant whatsoever, to enter upon the premises by use of a master key, a duplicate key, or other peaceable means, and to change, alter, and/or modify the door locks on all entry doors of the premises, thereby permanently excluding Tenant and its officers, principals, agents, employees, and representatives therefrom. If Landlord has either permanently repossessed the Premises pursuant to the foregoing provisions of this Lease, or has terminated this lease by reason of Tenant's default, Landlord shall not thereafter be obligated to provide Tenant with a key to the Premises at any time; provided, however, that in any such instance, during

Landlord's regular business hours and at the convenience of Landlord, and upon the written request of Tenant accompanied by such written waivers and releases as Landlord may require, Landlord will escort Tenant or its authorized personnel to the Premises to retrieve any personal belongings or other property of Tenant not subject to the lien or security interest described herein. If Landlord elects to exclude Tenant from the Premises without permanently repossessing or terminating pursuant to the foregoing provisions of this lease, then Landlord (at any time prior to actual repossession or termination) shall not be obligated to provide Tenant a key to re-enter the Premises until such time as all delinquent rental and other amounts due under this lease have been paid in full (and all other defaults, if any, have been completely cured to Landlord's satisfaction) and Landlord has been given assurance reasonably satisfactory to Landlord evidencing Tenant's ability to satisfy its remaining obligations under this lease. During any such temporary period of exclusion, Landlord will, during Landlord's regular business hours and at Landlord's convenience, upon written request by Tenant, escort Tenant or its authorized personnel to the Premises to retrieve personal belongings of Tenant or its employees. This remedy of Landlord shall override and control any conflicting provisions of the Texas Property Code.

No re-entry or taking possession of the Premises by Landlord shall be construed as an election on its part to terminate this lease, unless a written notice of such intention be given to Tenant. Notwithstanding any such reletting or re-entry or taking possession, Landlord may at any time thereafter elect to terminate this lease for a previous default. Pursuit of any of the foregoing remedies shall not preclude pursuit of any of the other remedies herein provided or any other remedies provided by law, nor shall pursuit of any remedy herein provided constitute a forfeiture or waiver of any rent due to Landlord hereunder or of any damages accruing to Landlord by reason of the violation of any of the terms, provisions and covenants herein contained. Landlord's acceptance of rent following an event of default hereunder shall not be construed as Landlord's waiver of such event of default. No waiver by Landlord of any violation or breach of any of the terms, provisions, and covenants herein contained shall be deemed or construed to constitute a waiver of any other violation or breach of any of the terms, provisions, and covenants herein contained. Forbearance by Landlord to enforce one or more of the remedies herein provided upon an event of default shall not be deemed or construed to constitute a wavier of any other violation or default.

22. Surrender of Premises. No act or thing done by the Landlord or its agents during the term hereby granted shall be deemed as acceptance of a surrender of the Premises, and no agreement to accept a surrender of the Premises shall be valid unless the same be made in writing and subscribed by the Landlord.

23. Attorneys' Fees. In case it should be necessary or proper for Landlord or Tenant to bring any action under this lease or to consult or place such lease, or any amount payable by Landlord or Tenant thereunder, with an attorney concerning or for the enforcement of any of Landlord's or Tenant's rights hereunder, then the non-prevailing party agrees in each and any such case to pay the prevailing party on demand a reasonable attorney's fee.

24. Intentionally deleted.

25. Mechanic's Lien. Tenant will not permit any mechanic's lien or liens to be placed upon the Premises or the Project or improvements thereon during the term hereof caused by or resulting from any work performed, materials furnished or obligation incurred by or at the request of Tenant, and in the case of the filing of any such lien Tenant will promptly pay same. If default in payment thereof shall continue for twenty (20) days after written notice thereof from Landlord to the Tenant, the Landlord shall have the right and privilege at Landlord's option of paying the same or any portion thereof without inquiry as to the validity thereof, and any amounts so paid, including expenses and interest, shall be so much additional rent hereunder due from Tenant to Landlord and shall be repaid to Landlord immediately on rendition of bill therefor, together with interest until repaid as provided in Paragraph 35. Tenant will have the option to "bond around" any mechanic's lien, or liens, provided such bonding around is in accordance with and permitted by deeds of trust or mortgages affecting the Building.

26. Waiver of Subrogation. Anything in this lease to the contrary notwithstanding, the parties hereto hereby waive any and all rights of recovery, claim action or cause of action, against each other, their agents, officers, and employees, for any loss or damage that may occur to the Premises hereby demised, or any improvements thereof, or such Project of which the Premises are a part, any improvements thereto, or related facilities, by reason of fire, the elements, or any other cause which could be insured against under the terms of standard fire and extended coverage insurance policies, regardless of cause or origin, including negligence of the parties hereto, their agents, officers and employees.

No insurer of one party hereunder shall hold any right of subrogation against the other party. If the respective insurer of Landlord and Tenant does not permit the foregoing waiver without an appropriate endorsement to such party's insurance policy, then Landlord and Tenant each covenant and agree to notify its insurer of the waiver set forth herein and to secure from such insurer an appropriate endorsement to its respective insurance policy with respect to such waiver.

27. Notices. Each provision of the Agreement, or of any applicable

governmental laws, ordinances, regulations, and other requirements with reference to the sending, mailing or delivery of any notice, or with reference to the making of any payment by Tenant to Landlord, shall be deemed to be complied with when and if the following steps are taken:

(a) All rent and other payment required to be made by Tenant to Landlord hereunder shall be payable to Landlord in Dallas County, Texas, at the address hereinbelow set forth, or at such other address as Landlord may specify from time to time by written notice delivered in accordance herewith;

(b) Any notice or document required to be delivered hereunder shall be deemed to be delivered if actually received and whether or not received when deposited in the United States mail, postage prepaid, certified or registered mail (with or without return receipt requested) addressed to the parties hereto at the respective addresses set out opposite their names below, or at such other address as they have heretofore specified by written notice delivered in accordance herewith;

LANDLORD: TR Lookout Partners. Ltd.
c/o Thompson Realty Corporation
1600 N. Collins, Suite 2100
Richardson, Texas 75080

TENANT: telecom technologies, inc.
1701 N. Collins, Suite 3000 (prior to the Commencement Date)
1301 E. Lookout Drive, Suite 3000 (after the Commencement Date)
Richardson, Texas 75080 (in both instances)
Attn: Hamid Ansari (with an additional separate copy to Anousheh Ansari)

With a copy to:
Robert L. Abbott
Stutzman & Bromberg. P.C.
2323 Bryan St., Suite 2200
Dallas, Texas 75201

28. Force Majeure. Whenever a period of time is herein prescribed for action to be taken by either party, specifically excluding Tenant's obligation to pay rent and other monetary obligations of Tenant hereunder, such party shall not be liable or responsible for, and there shall be excluded from the computation of any such period of time, any delays due to strikes, riots, Acts of God, shortages of labor or materials, war, governmental laws, regulations or restrictions or any other causes of any kind whatsoever which are beyond the control of such party.

29. Separability. If any clause or provision of this lease is illegal, invalid or unenforceable under present or future laws effective during the term of this lease, then and in that event, it is the intention of the parties hereto that the remainder of this lease shall not be affected thereby, and it is also the intention of the parties to this that in lieu of each clause or provision of this lease that is illegal, invalid, or unenforceable, there be added as part of this lease a clause or provision as similar in terms to such illegal, invalid or unenforceable clause or provision as may be possible and be legal, valid and enforceable.

30. Entire Agreement; Amendments; Binding Effect. This lease contains the entire agreement between the parties and may not be altered, changed or amended, except by instrument in writing signed by both parties hereto. No provision of this lease shall be deemed to have been waived by Landlord unless such waiver be in writing signed by Landlord and addressed to Tenant, nor shall any custom or practice which may grow up between the parties in the administration of the terms hereof be construed to waive or lessen the right of Landlord to insist upon the performance by Tenant in strict accordance with the terms hereof. The terms, provisions, covenants and conditions contained in this lease shall apply to, inure to the benefit of, and binding upon the parties hereto, and upon their respective successors in interest and legal representatives, except as otherwise herein expressly provided.

31. Quiet Enjoyment. Provided Tenant has performed all of the terms, covenants, agreements and conditions of this lease, including the payment of rent, to be performed by Tenant, Tenant shall peaceably and quietly hold and enjoy the Premises for the term hereof, without hindrance from Landlord, subject to the terms and conditions of this lease.

32. Rules and Regulations. Tenant and Tenant's agents, employees, and invitees will comply fully with all requirements of the rules and regulations of the Project and related facilities which are attached hereto as Exhibit "D" and made a part hereof as though fully set out herein. Provided additional expenditures are not required by Tenant, Landlord shall at all times have the right to change such rules and regulations or to promulgate other rules and regulations in such reasonable manner as may be deemed advisable for safety, care, or cleanliness of the Project, the Premises, or related facilities, and for preservation of good order therein all of which rules and regulations, changes and amendments will be forwarded to Tenant in writing and shall be carried out and observed by Tenant. Tenant shall further be responsible for the compliance with such rules and regulations by the employees, servants, agents, visitors and invitees of Tenant.

33. Broker's or Agent's Commission. Tenant represents and warrants that there are no claims for brokerage commissions or finder's fees in connection with the execution of this lease, and Tenant agrees to indemnify and hold harmless Landlord against all liabilities and costs arising from such claims, including without limitation attorneys' fees in connection therewith resulting from any other claims arising by or through Tenant.

34. Intentionally deleted.

35. Interest. Any rent or other amount which becomes owing by Tenant to Landlord under this lease (including unpaid service charges) shall bear interest from the date of demand at the lesser of the highest lawful rate or ten percent (10%) per annum.

36. Estoppel Certificate. Tenant will, at any time and from time to time, upon not less than ten (10) days' prior request by Landlord, execute, acknowledge and deliver to Landlord a statement in writing executed by Tenant certifying that this lease is unmodified and in full effect (or, if there have been modifications, that this lease is in full effect as modified, and setting forth such modifications) and the dates to which the rent has been paid, and either stating that to the knowledge of the signer of such certificate no default exists hereunder or specifying each such default of which the signer may have knowledge; it being intended that any such statement by Tenant may be relied upon by any prospective purchaser or mortgagee of the Project.

37. Landlord's Liability. The liability of Landlord to Tenant for any default by Landlord under the terms of this lease shall be limited to the proceeds of sale on execution of the interest of Landlord in the Building and Landlord shall not be personally liable for any deficiency. This clause shall not be deemed to limit or deny any remedies which Tenant may have in the event of default by Landlord hereunder, which do not involve the personal liability of Landlord.

38. Captions. The captions contained in this lease are for convenience of reference only, and in no way limit or enlarge the terms and conditions of this lease.

39. Gender. Words of any gender used in this lease shall be held and construed to include any other gender, and words in the singular number shall be held to include the plural, unless the context otherwise requires.

40. Place of Performance. Tenant shall perform all covenants, conditions and agreements contained herein, including but not limited to payment of rent, in Collin County, Texas. Any suit arising from or relating to this agreement shall be brought in Dallas County, Texas.

41. Relocation. Intentionally deleted.

42. Reception Area. Landlord has agreed to allow Tenant to locate a reception desk in the lobby area of the Building in a mutually acceptable location. The design and installation of the reception desk will be subject to Landlord's approval, not to be unreasonably withheld. Tenant will pay annual rental of $19.50 per square foot of rentable area occupied by the reception desk for months 1-60 of the lease term, and $22.25 per square foot of rentable area for months 61-84. Basic rental set forth in Paragraph 1(e) and the monthly rental installment set forth in Paragraph l(f) will be increased to cover reception area rental described herein as long as such reception area is required by Tenant. Tenant must, at its sole cost and expense, restore the lobby area at such time as Tenant chooses to eliminate the lobby reception desk.

43. Signage. Tenant, at its sole cost and expense (subject to Paragraph 7 of the Work Letter Agreement), subject to Landlord's approval, not to be unreasonably withheld, and subject to City of Richardson approval(s), shall have the right to install non-exclusive signage on the top of the Building in accordance with the drawing attached hereto as Exhibit "G". Exhibit "G" also indicates the location of Haynes and Boone, LLP signage ("H and B Signage"). Landlord agrees that the H and B Signage will not be moved from the north side of the Building without Tenant's consent. Landlord also agrees that if Haynes and Boone vacates the Building, for so long as Tenant occupies the Premises and no default exists and is continuing under this lease, Tenant will have the exclusive right to exterior Building signage. If Landlord ever constructs a Building monument sign, and so long as no uncured event of default exists under this lease Tenant, Tenant will be entitled, at its sole cost and expense, to install signage on the panel of Tenant's choice on such monument sign. Tenant may utilize the "Credit" (hereinafter defined) with respect to signage costs.

44. Emergency Generator. Landlord will, on an as-needed basis, provide Tenant rent free, with a mutually agreeable and unobtrusive location exterior to the Building, to locate an emergency generator owned by Tenant. The Building will have its own emergency generator.

45. Existing Leases. Landlord and Tenant acknowledge that Tenant is obligated as tenant through April 30, 2003, under those certain Office Lease Agreements with Collins Campbell Joint Venture ("Collins"), as Landlord relating to approximately 48,970 square feet of rentable area in the office building(s) located at 1701 N. Collins Blvd., Richardson, Texas, and commonly referred to as "The Atrium on Collins Phase I and Phase II". Those existing office leases include but are not limited to an office lease (i) dated April 4, 1997, as amended, relating to 38,016 square feet of rentable area, (ii) dated October 14, 1999, as amended, relating to 2,055 square feet, (iii) dated January 25, 2000, relating to 2,281 square feet of rentable area, and (iv) dated January 25, 2000, as amended, relating to 6618 square feet of rentable area, these described leases set forth above together with any other leases executed by Tenant with respect to space in the Atrium on Collins

Phase I and Phase II being collectively referred to as the "Existing Leases". Landlord agrees that, if for any reason Tenant is called upon by Collins, Principal Mutual Life Insurance Company or any other party to pay any rent or other amounts under the Existing Leases subsequent to taking possession and occupancy of the Premises under this Lease, and paying to Collins $150,000 in cash, which payment shall be due and payable within ten (10) days of Tenant taking possession and occupancy of the premises hereunder, Tenant shall be entitled to a dollar-for-dollar right of offset of any amounts paid under the Existing Leases against any and all amounts owing by Tenant under this Lease.

46. Basement Area. Landlord leases to Tenant and Tenant leases from Landlord 6,841 square feet of rentable area, as shown on Exhibit "H" attached hereto, of basement space (the "Basement Area"). The Basement Area will be suitable for storage, and except where wall is part of the concrete structure of the Building, Landlord will at its expense finish-out the Basement Area with sheet rock walls, lighting, plumbing stub-out, electrical lines to junction box, sprinkler system, main ducting for the HVAC system, and limited air-conditioning suitable for dead storage space. Basic rental set forth in Paragraph 1(e) and the monthly rental installment set forth in, Paragraph 1(f) will be increased to cover Basement Area rental at a rate of $12.00 per year per square foot of Basement Area. In the event Tenant decides to convert a portion of the Basement Area into a workout facility and employee lunch room, Landlord agrees to additionally install building standard ceiling and lighting at Landlord's expense. Tenant agrees that there will be no additional Credit, as defined in Paragraph 7 of Exhibit "C" with respect to the Basement Area.

47. Workout Facility. In the event Tenant elects to convert a portion of the basement area into a workout facility, Tenant agrees to allow twenty-five (25) Haynes and Boone, LLP ("H and B") employees at a cost of $25.00 per month per user, and five (5) Thompson Realty Corporation ("TRC") employees the right to use the workout facility at a cost of $75.00 per month per user. TRC agrees to collect the monthly user fees for any H and B or TRC users and remit the same to Tenant. Only the TRC user fees are guaranteed to be paid to Tenant and such guaranty is only in effect if TRC occupies space in the Building.

48. Roof Rights. Tenant will have the non-exclusive right to install telecommunications and/or satellite equipment on the roof of the Building at Tenant's sole cost and expense, but with no additional rental being charged by Landlord in connection therewith. Landlord will have the right to approve all specific equipment, such approval not to be unreasonably withheld. Use of the roof by other tenants of the Building is contemplated.

49. Fiber Optic Access. Landlord shall provide, at no cost to Tenant, a minimum of twelve (12) four inch sleeves at each phone room.

50. Non-Disturbance Agreement. Landlord will obtain a non-disturbance agreement for Tenant's benefit from the existing mortgage lien holder on the Building.

51. Lease Submission. The submission of this Lease to Tenant shall not be construed as an offer, nor shall Tenant have any rights with respect hereto unless and until Landlord shall execute a copy of this lease and deliver the same to Tenant.

52. Early Occupancy of the Second Portion. Notwithstanding anything contained herein to the contrary, in the event Tenant occupies the Second Portion prior to September 1, 2003, Tenant will pay only for the period of early occupancy prior to and including August 31, 2003, "Electrical Costs" and "Basic Cost", as defined in Exhibit "B", with respect to the Second Portion. No "Basic Costs Stop" as defined in Exhibit "B", will apply to the Second Portion during the period of early occupancy, if any, nor will a monthly rental installment. Effective September 1, 2003, the monthly rental installment in Section 1(f) will apply to the First Portion and the Second Portion.

53. Special Provisions. Exhibits "A", "B", "C", "D", "E", "F", "G", Rider No. 101, Rider No. 201, Rider No. 301, Rider No. 301-B and Rider No. 401.

LANDLORD: TR Lookout Partners, Ltd.,
a Texas limited partnership

By: Thompson Realty Investment Corporation,
a Texas Corporation

By: /s/ W.T. Field

W.T. Field, President

TENANT: telecom technologies, inc.

By: /s/ Anousheh Ansari

Anousheh Ansari
President & Chief Executive Officer

Exhibit 10.21

FIRST AMENDMENT TO OFFICE LEASE AGREEMENT

THIS FIRST AMENDMENT TO OFFICE LEASE AGREEMENT (this "First Amendment") is made and entered into effective as of January 8, 2001, by and between TR Lookout Partners, Ltd. ("Landlord") and telecom technologies, inc. ("Tenant").

RECITALS

WHEREAS, Landlord and Tenant entered into that certain Office Lease Agreement dated as of November 14, 2000 (the "Lease"), with respect to certain Premises defined therein and commonly known as Suite 3000, 1301 E. Lookout Drive, Richardson, Texas, which Lease is incorporated herein by reference; and

WHEREAS, Landlord and Tenant desire to amend the Lease to increase the size of the premises, the rental and the tenant improvement allowance.

NOW, THEREFORE, in consideration of the mutual agreements herein set forth and set forth in the Lease, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant have agreed, and do hereby agree, as follows:

1. All terms used herein and not specifically defined shall have the same meaning herein as is ascribed to them in the Lease.

2. Notwithstanding anything contained to the contrary in the first paragraph of "RIDER NO. 201" and in EXHIBIT "C-201" to the Lease, the Premises are hereby increased to 119,966 square feet of rentable area by adding the 10,000 square feet of rentable area on the second floor (the Expansion Space) to the First Portion, which increases the First Portion from 91,684 square feet of rentable area to 101,684 square feet of rentable area. This revised First Portion is described on Exhibit "A" to this First Amendment, which is attached hereto and incorporated herein for all purposes.

3. Basic rental under the Lease, as set forth in Paragraph 1(e), is increased from $14,902,174.00 to $16,896,818.00. ($574,644.00 is attributable to the Basement Area which is 6,841 square feet of rentable area).

4. The monthly rental installment as set forth in Paragraph 1(f) of the Lease is increased as set forth below:

Time Period	Rentable Area (except for Basement Area)	Monthly Rental Installment	Annual Rental Rate Per Square Foot (except for Basement Area)
Monthly from Sept. 1, 2001 through August 31, 2003	101,684	$172,077.50 (not $148,986.50) ($6,841.00 is attributable to Basement Area)	$19.50
Monthly from Sept. 1, 2003 through August 31, 2006	119,966	$201,785.75 (not $178,694.75) ($6,841.00 is attributable to Basement Area)	$19.50
Monthly from Sept. 1, 2006 through August 31, 2008	119,966	$229,277.96 (not $203,876.96) ($6,841.00 is attributable to Basement Area)	$22.25

5. Notwithstanding anything contained to the contrary in Exhibit "C-201" to the Lease, Landlord and Tenant agree the Expansion Space is now part of the First Portion of the Premises, and, as such, is subject to the provisions of Exhibit "C" to the Lease, the WORK LETTER AGREEMENT, specifically including Section 7.

6. The additional tenant improvement allowance contained in Section 8 of Exhibit "C" with respect to the First Portion shall be increased as follows:
September 1, 2001, First Portion From: $522,754.00 To: $586,654.00

7. Paragraph 1 of RIDER NO. 201 to the Lease, OPTION TO EXPAND, is hereby deleted in its entirety and is of no further force or effect.

8. The Right of First Refusal Space (the Growth Area) identified in RIDER NO. 301 to the Lease, RIGHT OF FIRST REFUSAL, is hereby decreased from 38,285 square feet of rentable area to 28,285 square feet of rentable area.

9. Except as herein provided to the contrary, Tenant's lease of the Expansion Space from Landlord pursuant hereto shall be on the same terms and conditions as those specified in the Lease.

10. The Lease (as amended by this First Amendment) remains in full force and effect and is hereby ratified and affirmed.

11. Exhibit "A" to this First Amendment replaces and supercedes Exhibit "A" to the Lease.

12. Prepaid Rent is hereby increased from $148,986.50 to $165,236.50. Tenant has previously paid Prepaid Rent equal to $148,986.50 to Landlord. Additional Prepaid Rent of $16,250.00 shall be payable by Tenant to Landlord contemporaneously with the execution hereof.

13. The submission of this First Amendment to Tenant shall not be construed as an offer, nor shall Tenant have any rights with respect hereto, unless and until Landlord shall execute a copy of this First Amendment and deliver the same to Tenant.

IN WITNESS WHEREOF, this First Amendment is hereby executed effective as of the day and year first set forth above.

LANDLORD:

TR Lookout Partners, Ltd.
a Texas limited partnership

By: Thompson Realty Investment Corporation,
a Texas Corporation

By: /s/ W.T. Field

W.T. Field, President

TENANT:

telecom technologies, inc.

By: /s/ Anousheh Ansari

Anousheh Ansari

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

Sonus Networks, Inc. has the following wholly owned subsidiaries:

Sonus Networks Limited, a United Kingdom corporation

Sonus Networks Pte Ltd, a Singapore corporation

telecom technologies, inc., a Texas corporation