

SONUS NETWORKS, INC.  
Condensed Consolidated Statements of Cash Flows  
(in thousands)  
(unaudited)

	Nine months ended September 30,	
	2007	2006
Cash flows from operating activities:		
Net income (loss)	\$ (37,726)	\$ 29,100
Adjustments to reconcile net income (loss) to cash flows provided by operating activities:		
Depreciation and amortization of property and equipment	9,994	7,363
Amortization of purchased intangible assets	284	-
Stock-based compensation	35,115	7,479
Provision for settlement of litigation	40,000	-
Loss on disposal of property and equipment	12	7
Decrease in fair value of modified stock options held by former employees	(1,088)	-
Deferred income taxes	(17,152)	519
Changes in operating assets and liabilities:		
Accounts receivable	(1,512)	23,463
Inventory	(8,991)	12,125
Other operating assets	(3,620)	(5,255)
Accounts payable	1,869	(10,069)
Accrued expenses, deferred rent and accrued restructuring expenses	(12,565)	(1,506)
Long-term obligations	-	(418)
Deferred revenue	(2,253)	(41,208)
Net cash provided by operating activities	<u>2,367</u>	<u>21,600</u>
Cash flows from investing activities:		
Purchases of property and equipment	(8,955)	(7,872)
Acquisition of Zynetix Limited	(8,825)	-
Maturities of available-for-sale marketable debt securities	70,358	103,814
Purchases of available-for-sale marketable debt securities	(67,958)	(38,290)
Maturities of held-to-maturity marketable debt securities and long-term investments	277,704	118,464
Purchases of held-to-maturity marketable debt securities and long-term investments	(249,126)	(308,934)
Decrease in restricted cash	261	250
Net cash provided by (used in) investing activities	<u>13,459</u>	<u>(132,568)</u>
Cash flows from financing activities:		
Sale of common stock in connection with employee stock purchase plan	5,613	4,764
Proceeds from exercise of stock options	26,183	23,155
Repayment of convertible subordinated note	-	(10,000)
Repayment of notes due to Zynetix Limited shareholders	(335)	-
Payment of tax withholding obligations related to net share settlement of restricted stock award	(399)	-
Principal payments of capital lease obligations	(148)	(36)
Net cash provided by financing activities	<u>30,914</u>	<u>17,883</u>
Effect of exchange rate changes on cash and cash equivalents	<u>999</u>	<u>(2)</u>
Net increase (decrease) in cash and cash equivalents	47,739	(93,087)
Cash and cash equivalents, beginning of period	44,206	155,679
Cash and cash equivalents, end of period	<u>\$ 91,945</u>	<u>\$ 62,592</u>