

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 10-Q**

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

For the quarterly period ended **June 30, 2008**

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number **000-30229**

**SONUS NETWORKS, INC.**

(Exact name of Registrant as specified in its charter)

<b>DELAWARE</b> (State or other jurisdiction of incorporation or organization)	<b>04-3387074</b> (I.R.S. employer identification no.)
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**7 Technology Park Drive, Westford, Massachusetts 01886**  
(Address of principal executive offices, including zip code)

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

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

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

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

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

As of July 31, 2008, there were 271,205,633 shares of the registrant's common stock, \$0.001 par value, outstanding.

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**SONUS NETWORKS, INC.**  
**FORM 10-Q**  
**QUARTER ENDED JUNE 30, 2008**  
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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

SONUS NETWORKS, INC.

Condensed Consolidated Balance Sheets

(in thousands, except share data)

(unaudited)

	June 30, 2008	December 31, 2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 143,730	\$ 118,933
Marketable securities	174,935	207,088
Accounts receivable, net of allowance for doubtful accounts of \$919 and \$474 at June 30, 2008 and December 31, 2007, respectively	79,387	84,951
Inventory	44,767	45,560
Deferred income taxes	22,675	30,683
Litigation settlement escrow	—	25,000
Insurance receivable—litigation settlement	—	15,328
Other current assets	19,542	18,842
Total current assets	485,036	546,385
Property and equipment, net	18,337	18,459
Intangible assets, net	4,276	2,607
Goodwill	6,968	8,397
Investments	79,109	66,568
Deferred income taxes	49,281	49,296
Other assets	6,325	2,338
Total assets	\$ 649,332	\$ 694,050
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 12,633	\$ 17,379
Accrued expenses	27,657	39,980
Litigation settlement liability	—	40,000
Current portion of deferred revenue	74,703	82,743
Current portion of long-term liabilities	937	1,079
Total current liabilities	115,930	181,181
Deferred revenue	19,875	16,462
Deferred income taxes	759	760
Long-term liabilities	2,558	2,061
Total liabilities	139,122	200,464
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 5,000,000 shares authorized, none issued and outstanding	—	—
Common stock, \$0.001 par value; 600,000,000 shares authorized; 273,501,543 and 272,565,951 shares issued; 271,204,633 and 270,269,041 shares outstanding at June 30, 2008 and December 31, 2007, respectively	274	273
Additional paid-in capital	1,259,656	1,244,232
Accumulated deficit	(751,228)	(751,920)
Accumulated other comprehensive income	1,775	1,268
Treasury stock, at cost; 2,296,910 common shares	(267)	(267)
Total stockholders' equity	510,210	493,586
Total liabilities and stockholders' equity	\$ 649,332	\$ 694,050

See notes to condensed consolidated financial statements (unaudited).

**SONUS NETWORKS, INC.**

**Condensed Consolidated Statements of Operations**

(in thousands, except per share data)

(unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
<b>Revenue:</b>				
Product	\$ 62,403	\$ 52,171	\$ 113,387	\$ 103,798
Service	25,488	23,322	48,527	42,841
Total revenue	<u>87,891</u>	<u>75,493</u>	<u>161,914</u>	<u>146,639</u>
<b>Cost of revenue:</b>				
Product	18,309	23,561	35,129	40,643
Service	11,476	9,563	22,551	18,142
Total cost of revenue	<u>29,785</u>	<u>33,124</u>	<u>57,680</u>	<u>58,785</u>
Gross profit	<u>58,106</u>	<u>42,369</u>	<u>104,234</u>	<u>87,854</u>
<b>Operating expenses:</b>				
Research and development	18,397	22,350	38,895	41,048
Sales and marketing	19,371	21,219	38,312	44,269
General and administrative	12,770	14,202	22,767	28,264
Impairment of intangible assets and goodwill	3,630	—	3,630	—
Total operating expenses	<u>54,168</u>	<u>57,771</u>	<u>103,604</u>	<u>113,581</u>
Income (loss) from operations	3,938	(15,402)	630	(25,727)
Interest expense	(32)	(79)	(53)	(83)
Interest income	3,236	4,522	7,205	9,146
Other income (expense), net	6	(256)	385	(936)
Income (loss) before income taxes	7,148	(11,215)	8,167	(17,600)
Income tax benefit (provision)	(7,022)	4,239	(7,475)	6,646
Net income (loss)	<u>\$ 126</u>	<u>\$ (6,976)</u>	<u>\$ 692</u>	<u>\$ (10,954)</u>
<b>Net income (loss) per share:</b>				
Basic	\$ 0.00	\$ (0.03)	\$ 0.00	\$ (0.04)
Diluted	\$ 0.00	\$ (0.03)	\$ 0.00	\$ (0.04)
<b>Shares used in computing net income (loss) per share:</b>				
Basic	271,150	259,786	270,870	259,777
Diluted	273,710	259,786	272,422	259,777

See notes to condensed consolidated financial statements (unaudited).

**SONUS NETWORKS, INC.**

**Condensed Consolidated Statements of Cash Flows**

(in thousands)

(unaudited)

	Six months ended June 30,	
	2008	2007
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 692	\$ (10,954)
Adjustments to reconcile net income (loss) to cash flows provided by operating activities:		
Depreciation and amortization of property and equipment	6,366	6,351
Amortization of intangible assets	534	141
Stock-based compensation	13,180	23,486
Impairment of intangible assets and goodwill	3,630	—
Deferred income taxes	7,849	5,645
Increase in fair value of modified stock options held by former employees	—	936
Changes in operating assets and liabilities:		
Accounts receivable	6,112	(1,261)
Inventory	(2,428)	(10,579)
Insurance receivable—litigation settlement	15,328	—
Other operating assets	2,806	(5,693)
Accounts payable	(6,312)	6,541
Accrued expenses, deferred rent and accrued restructuring expenses	(15,499)	(6,901)
Litigation settlement liability	(40,000)	—
Deferred revenue	(5,473)	(7,377)
Net cash provided by (used in) operating activities	<u>(13,215)</u>	<u>335</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(4,360)	(7,138)
Business acquisitions	(4,996)	(8,825)
Purchases of available-for-sale marketable securities	(45,986)	(36,008)
Sale/maturities of available-for-sale marketable securities	61,697	38,158
Purchases of held-to-maturity marketable securities	(123,851)	(138,551)
Maturities of held-to-maturity marketable securities	128,215	170,000
Decrease in litigation settlement escrow	25,000	—
Decrease in restricted cash	—	261
Net cash provided by investing activities	<u>35,719</u>	<u>17,897</u>
<b>Cash flows from financing activities:</b>		
Sale of common stock in connection with employee stock purchase plan	2,213	—
Proceeds from exercise of stock options	413	—
Repayment of notes payable to Zynetix Limited former shareholders	—	(335)
Payment of tax withholding obligations related to net share settlements of restricted stock awards	(95)	(300)
Principal payments of capital lease obligations	(106)	(73)
Net cash provided by (used in) financing activities	<u>2,425</u>	<u>(708)</u>
Effect of exchange rate changes on cash and cash equivalents	(132)	(113)
Net increase in cash and cash equivalents	24,797	17,411
Cash and cash equivalents, beginning of period	118,933	44,206
Cash and cash equivalents, end of period	<u>\$ 143,730</u>	<u>\$ 61,617</u>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 53	\$ 23
Income taxes paid	\$ 755	\$ 1,886
<b>Supplemental disclosure of non-cash investing activities:</b>		
Capital expenditures incurred, but not yet paid	\$ 787	\$ 267
Property and equipment acquired under capital lease	\$ 1,083	\$ —

See notes to condensed consolidated financial statements (unaudited).

**SONUS NETWORKS, INC.**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

**(1) BASIS OF PRESENTATION**

***Business***

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

***Basis of Presentation***

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

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

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

***Use of Estimates and Judgments***

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

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(1) BASIS OF PRESENTATION (Continued)

period in which they become known. Sonus bases its estimates on historical experience and other assumptions that it believes to be reasonable under the circumstances. Actual results could differ from those estimates.

*Principles of Consolidation*

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

*Recent Accounting Pronouncements*

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

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

(2) REVENUE RECOGNITION

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

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

**(2) REVENUE RECOGNITION (Continued)**

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

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

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

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

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

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

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

In fiscal 2008, the Company began to enter into arrangements to deliver software or a software system, either alone or combined with other products or services, that require significant production, modification or customization. The Company is accounting for these arrangements under AICPA Statement of Position No. 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* ("SOP 81-1"). For arrangements accounted for under SOP 81-1, all



**SONUS NETWORKS, INC.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(Unaudited)**

**(2) REVENUE RECOGNITION (Continued)**

development costs are deferred until the related revenue is recognized. The current arrangements are recognized using the completed contract method; however, the Company will use the percentage-of-completion method when it has established a history of making dependable estimates under that method. The Company did not have any arrangements under SOP 81-1 for which it recognized revenue in either the three or six months ended June 30, 2008.

**(3) NET INCOME (LOSS) PER SHARE**

Net income (loss) per share is computed in accordance with SFAS No. 128, *Earnings per Share*. Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. For periods in which the Company reports net income, diluted net income per share is determined by using the weighted average number of common and dilutive common equivalent shares outstanding during the period unless the effect is antidilutive. Potential dilutive common shares consist of common stock issuable upon the exercise of stock options under the Company's stock compensation plans using the treasury stock method.

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

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Weighted average shares outstanding—basic	271,150	259,786	270,870	259,777
Potential dilutive common shares	2,560	—	1,552	—
Weighted average shares outstanding—diluted	273,710	259,786	272,422	259,777

The calculations above for the three months ended June 30, 2008 and 2007 exclude options to purchase an aggregate of approximately 36.0 million shares of common stock and 19.1 million shares of common stock, respectively, as their effect would be antidilutive. The calculations above for the six months ended June 30, 2008 and 2007 exclude options to purchase an aggregate of approximately 37.3 million shares of common stock and 18.2 million shares of common stock, respectively, as their effect would be antidilutive.

**SONUS NETWORKS, INC.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(Unaudited)**

**(4) COMPREHENSIVE INCOME (LOSS)**

Sonus' comprehensive income (loss) for the three and six months ended June 30, 2008 and 2007 is as follows (in thousands):

	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Net income (loss)	\$ 126	\$(6,976)	\$ 692	\$(10,954)
Changes in accumulated other comprehensive income (loss):				
Foreign currency translation adjustments	(371)	(158)	241	(97)
Unrealized loss on transfer of held-to-maturity marketable debt securities to available-for-sale, net of tax	(33)	—	(33)	—
Unrealized gain on marketable debt and equity securities held as available-for-sale, net of tax	321	—	299	—
Comprehensive income (loss)	<u>\$ 43</u>	<u>\$(7,134)</u>	<u>\$1,199</u>	<u>\$(11,051)</u>

**(5) BUSINESS ACQUISITIONS**

*Atreus Systems, Inc.*

On April 18, 2008, the Company completed the acquisition of Atreus Systems, Inc. and its subsidiaries ("Atreus"), a privately-held company with its principal office located in Ottawa, Canada. Atreus is a supplier of service provisioning software for Voice over IP ("VoIP") and IP Multimedia Subsystem ("IMS")-based services. In consideration, the Company paid the selling stockholders \$4.8 million and incurred \$0.2 million of transaction costs. The Company believes that the addition of Atreus solutions to the Sonus product portfolio will allow Sonus to provide comprehensive integration services for operators' growing IP-service portfolios. The operating results of Atreus have been included in the Company's condensed consolidated financial statements for the period subsequent to its acquisition.

**SONUS NETWORKS, INC.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(Unaudited)**

**(5) BUSINESS ACQUISITIONS (Continued)**

A summary of the transaction is as follows (in thousands):

<b>Consideration:</b>	
Cash paid	\$ 4,800
Transaction costs	206
Total consideration	<u>\$ 5,006</u>
<b>Preliminary allocation of the purchase consideration:</b>	
Current assets	\$ 3,409
Other assets	390
<b>Identifiable intangible assets:</b>	
Developed technology	2,500
Customer relationships	1,000
Order backlog	300
Goodwill	679
Current liabilities	<u>(3,272)</u>
	<u>\$ 5,006</u>

Current assets acquired primarily consist of accounts receivable. Other assets acquired primarily consist of noncurrent unbilled accounts receivable. Current liabilities assumed primarily consist of accrued expenses, accounts payable and deferred revenue. Current liabilities also include \$0.7 million for employee severance costs, which are expected to be paid by the third quarter of fiscal 2008.

The preliminary amounts assigned to identifiable intangible assets acquired were based on their respective fair values determined as of the acquisition date. The Company is currently in the process of gathering all information necessary to finalize its purchase price allocation. Accordingly, adjustments to the preliminary amounts are possible. The Company is amortizing these identifiable intangible assets using the straight-line method over their respective useful lives, which range from one to four years (see Note 8). The excess of the purchase price over net assets acquired was recorded as goodwill. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), the goodwill will not be amortized, but will instead be tested for impairment at least annually. The goodwill is not deductible for income tax purposes. Pro forma results of operations are not presented as the amounts are not material to the Company's historical results.

***Zynetix Limited***

In connection with the acquisition of Zynetix Limited ("Zynetix"), completed on April 13, 2007, the share purchase agreement, as amended, includes two additional potential payments (the "earnouts") to the selling shareholders: (1) £1,500,000 (U.S. \$3.0 million at June 30, 2008) payable on December 31, 2008; and (2) 175,000 shares of Sonus common stock deliverable on April 30, 2009. Both earnouts are contingent upon the business achieving certain predetermined financial and business metrics related to revenue, operating expenses and customer trials. The shares of common stock have been placed into escrow and will be released if the earnout is achieved. Each earnout will be recorded as an addition to the purchase price at the time the contingency is resolved and consideration is distributable. In connection with the preparation of its financial statements for the second quarter of

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

**(5) BUSINESS ACQUISITIONS (Continued)**

fiscal 2008, the Company performed a review of the intangible assets and goodwill in connection with this acquisition and recorded impairment charges aggregating \$3.6 million (see Note 8).

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

Cash equivalents and marketable securities are invested in debt and equity instruments, primarily U.S. government, municipal and corporate obligations, which management believes to be high quality instruments.

On June 12, 2008, the Company transferred its held-to-maturity portfolio of debt securities, aggregating \$373.1 million, to the available-for-sale category. The Company recorded, at the time of the transfer, approximately \$33,000 of net unrealized losses on available-for-sale securities in Accumulated other comprehensive income, net of tax. Because the transfer did not qualify under the exemption provisions for the sale or transfer of held-to-maturity securities under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* ("SFAS 115"), the reclassification decision by the Company is deemed to have "tainted" the held-to-maturity category and, accordingly, it will not be permitted to prospectively classify any investment securities accounted for in accordance with SFAS 115 as held-to-maturity for an extended period. However, the Company does not intend to designate securities as held-to-maturity for the foreseeable future and believes that maintaining its securities in the available-for-sale category provides greater flexibility in the management of its overall investment portfolio. As a result of the transfer, there were no investments classified as held-to-maturity securities at June 30, 2008.

Subsequent to the transfer of its held-to-maturity portfolio to the available-for-sale category, the Company sold \$23.8 million of available-for-sale securities. The Company realized approximately \$16,000 of gross gains and approximately \$10,000 of gross losses as a result of these sales on a specific identification basis, based on the amount of unrecognized gains and losses recorded in Accumulated other comprehensive income for the securities at the time of the respective sales. These amounts are included in the Company's condensed consolidated statements of operations for both the three and six months ended June 30, 2008.

The Company's available-for-sale securities are reported at fair value based on quoted market prices, with unrealized gains and losses excluded from net income and reported, net of tax, in accumulated other comprehensive income, which is a separate component of stockholders' equity. At

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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

June 30, 2008, the amortized cost, gross unrealized gains and losses and fair value of the Company's debt and equity securities and investments were comprised of the following (in thousands):

	June 30, 2008			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
<i>Marketable securities</i>				
Equity securities	\$ 137	\$ —	\$ (49)	\$ 88
Debt securities available for sale:				
U.S. government agency notes	130,753	513	(84)	131,182
Corporate debt securities	14,747	53	(8)	14,792
Commercial paper	28,890	94	(111)	28,873
	<u>\$174,527</u>	<u>\$ 660</u>	<u>\$ (252)</u>	<u>\$174,935</u>
<i>Investments</i>				
Debt securities available for sale:				
Municipal obligations	\$ 1,455	\$ —	\$ (14)	\$ 1,441
U.S. government agency notes	61,929	135	(79)	61,985
Corporate debt securities	15,671	43	(31)	15,683
	<u>\$ 79,055</u>	<u>\$ 178</u>	<u>\$ (124)</u>	<u>\$ 79,109</u>

The amortized cost and fair value of fixed maturities at June 30, 2008 by contractual maturity were as follows (in thousands):

	Amortized cost	Fair value
Due in one year or less	\$174,527	\$174,935
Due after one year through two years	\$ 79,055	\$ 79,109

**SONUS NETWORKS, INC.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(Unaudited)**

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

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

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

	Cost	Unrealized gains	Unrealized losses	Fair value
Equity securities available for sale	\$ 137	\$ —	\$ —	\$ 137

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

	December 31, 2007
Debt securities	\$ 206,951
Equity securities carried at fair value	137
	\$ 207,088

**SONUS NETWORKS, INC.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(Unaudited)**

**(7) INVENTORY**

Inventory consists of the following (in thousands):

	June 30, 2008	December 31, 2007
On-hand final assemblies and finished goods inventory	\$ 17,541	\$ 19,102
Deferred cost of goods sold	35,820	30,018
Evaluation inventory	6,170	6,285
Inventory, gross	59,531	55,405
Evaluation inventory reserve	(6,170)	(6,285)
Excess and obsolescence reserve	(4,916)	(3,560)
Inventory, net	48,445	45,560
Less current portion	(44,767)	(45,560)
Long-term portion (included in Other assets)	<u>\$ 3,678</u>	<u>\$ —</u>

**(8) INTANGIBLE ASSETS AND GOODWILL**

The Company's intangible assets at June 30, 2008 and December 31, 2007 consist of the following (in thousands):

June 30, 2008	Weighted average useful life	Cost	Accumulated amortization	Net carrying value
Customer relationships	4.0 years	\$ 994	\$ 57	\$ 937
Intellectual property/developed technology	4.2 years	3,238	135	3,103
Order backlog	1.0 year	298	62	236
		<u>\$4,530</u>	<u>\$ 254</u>	<u>\$4,276</u>

December 31, 2007	Weighted average useful life	Cost	Accumulated amortization	Net carrying value
Customer relationships	7.0 years	\$1,415	\$ 152	\$1,263
Intellectual property	5.0 years	1,314	197	1,117
Trade name	3.0 years	303	76	227
		<u>\$3,032</u>	<u>\$ 425</u>	<u>\$2,607</u>

The Company amortizes its intangible assets over the estimated useful lives of the respective assets, which have a weighted average useful life of 4.0 years. Amortization expense related to intangible assets was \$0.1 million and \$0.6 million in the three and six months ended June 30, 2008, respectively, and \$141,000 in both the three and six months ended June 30, 2007.

**SONUS NETWORKS, INC.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(Unaudited)**

**(8) INTANGIBLE ASSETS AND GOODWILL (Continued)**

Estimated future amortization expense for intangible assets recorded by the Company at June 30, 2008 is as follows (in thousands):

Remainder of 2008	\$ 696
2009	1,156
2010	1,077
2011	1,077
2012	270
	<u>\$4,276</u>

Goodwill is recorded when the consideration for an acquisition exceeds the fair value of net tangible and identifiable intangible assets acquired. The Company's goodwill balance relates to the April 2008 acquisition of Atreus and the April 2007 acquisition of Zynetix. The changes in the carrying amounts of goodwill during the six months ended June 30, 2008 are as follows (in thousands):

Balance at January 1, 2008	\$ 8,397
Acquisition of Atreus	679
Impairment of goodwill allocable to the Zynetix reporting unit	(2,068)
Foreign currency translation adjustment	(40)
Balance at June 30, 2008	<u>\$ 6,968</u>

Goodwill and intangible assets with indefinite lives are tested for impairment on an annual basis and between annual tests if indicators of potential impairment exist. Intangible assets with estimated lives and other long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Factors that could indicate that an impairment may exist include significant underperformance relative to plan or long-term projections, strategic changes in business strategy, significant negative industry or economic trends, a significant change in circumstances relative to a large customer, a significant decline in the Company's stock price for a sustained period, and a decline in the Company's market capitalization to below net book value.

In connection with the preparation of the Company's financial statements for the second quarter of fiscal 2008 and update of its sales forecast for the second half of the fiscal year, the Company conducted its quarterly review for impairment indicators, during which it determined that there were no impairment indicators related to the intangible assets and goodwill allocated to the Sonus reporting unit. However, this review identified several indicators related to the intangible assets and goodwill allocated to the Zynetix reporting unit, including significant underperformance relative to plan or long-term projections. In response, the Company performed an assessment of the carrying value of its intangible assets and goodwill. Because these comparisons indicated that the intangible assets and goodwill were impaired, the Company recognized an impairment loss for the amount by which the carrying value of the intangible assets and goodwill allocated to the Zynetix reporting unit exceeded the related estimated fair value. As a result, the Company recorded a charge to operations of \$3.6 million for the write-down of intangible assets and goodwill. Of this charge, \$1.5 million relates to intangible assets and \$2.1 million relates to goodwill. The Company adjusted the cost basis of the intangible assets



**SONUS NETWORKS, INC.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(Unaudited)**

**(8) INTANGIBLE ASSETS AND GOODWILL (Continued)**

and goodwill to their new respective fair values as a result of the impairment. The impairment charge for the write-down of these assets is reported separately in the Company's consolidated statements of operations.

**(9) ACCRUED EXPENSES**

Accrued expenses consist of the following (in thousands):

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Employee compensation and related costs	\$ 12,621	\$ 20,892
Employee stock purchase plan	1,505	2,367
Professional fees	2,778	4,199
Royalties	823	2,373
Income taxes payable	722	1,442
Sales taxes payable	741	1,203
Other taxes	2,419	3,471
Other	6,048	4,033
	<u>\$ 27,657</u>	<u>\$ 39,980</u>

**(10) FAIR VALUE MEASUREMENTS**

The Company adopted SFAS No. 157, *Fair Value Measurements* ("SFAS 157") as of January 1, 2008 for financial assets and financial liabilities. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). SFAS 157 outlines a valuation framework and creates a fair value hierarchy using the following three levels:

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

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

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

In accordance with the fair value hierarchy described above, the following table shows the fair value of the Company's financial assets that are measured at fair value at June 30, 2008, which is comprised of the Company's available-for-sale debt and equity securities, and are reported under the

**SONUS NETWORKS, INC.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(Unaudited)**

**(10) FAIR VALUE MEASUREMENTS (Continued)**

captions Marketable securities and Investments in the condensed consolidated balance sheet (in thousands):

	Total carrying value at June 30, 2008	Fair value measurements at June 30, 2008 using:		
		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents	\$120,533	\$102,754	\$ 17,779	\$ —
Marketable securities				
Equity securities	\$ 88	\$ 88	\$ —	\$ —
U.S. government agency notes	131,182	—	131,182	—
Corporate debt securities	14,792	13,030	1,762	—
Commercial paper	28,873	—	28,873	—
	<u>\$174,935</u>	<u>\$ 13,118</u>	<u>\$ 161,817</u>	<u>\$ —</u>
Investments				
Municipal obligations	\$ 1,441	\$ —	\$ 1,441	\$ —
U.S. government agency notes	61,985	—	61,985	—
Corporate debt securities	15,683	15,683	—	—
	<u>\$ 79,109</u>	<u>\$ 15,683</u>	<u>\$ 63,426</u>	<u>\$ —</u>

Available-for-sale marketable securities and investments are recorded at fair value at each balance sheet date.

**(11) STOCK-BASED COMPENSATION**

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

On May 16, 2008, the Company appointed a new President and Chief Executive Officer (the "Executive"), effective June 13, 2008 (the "Commencement Date"). In connection with his employment agreement, the Company issued the Executive an option to purchase 500,000 shares of the Company's common stock at an exercise price of \$4.75, the closing price of the Company's common stock on June 16, 2008, the date of grant. Subject to his continued employment, 25% of the shares subject to the option will vest on the first anniversary of the Commencement Date and the remaining 75% will vest in equal monthly increments through the fourth anniversary of the Commencement Date. The Executive also received 500,000 shares of restricted stock. Subject to his continued employment, 25% of the shares of restricted stock will vest on the first anniversary of the Commencement Date and the

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(11) STOCK-BASED COMPENSATION (Continued)

remaining 75% will vest in equal increments semi-annually through the fourth anniversary of the Commencement Date.

Subject to his continued employment, on January 15, 2009, the Executive will receive an option to purchase 500,000 shares of the Company's common stock at an exercise price equal to the closing price of the Company's common stock on January 15, 2009. Subject to his continued employment, 25% of the shares subject to the option will vest on the first anniversary of the Commencement Date and the remaining 75% will vest in equal monthly increments through the fourth anniversary of the Commencement Date. On January 15, 2009, the Executive will also receive 500,000 shares of restricted stock, of which 25% will vest on the first anniversary of the Commencement Date and the remaining 75% in equal increments semi-annually through the fourth anniversary of the Commencement Date.

The Executive will be entitled to two performance stock awards of 250,000 shares each upon the Company's achieving certain performance metrics between January 1, 2010 and December 31, 2012 as approved by the Compensation Committee of the Board of Directors. The Company will begin to record stock-based compensation expense at the time that it becomes probable that the respective performance conditions will be achieved.

In November 2007, the Company granted the then-President and Chief Executive Officer (the "Former Executive") 750,000 shares of restricted stock subject to certain accelerated vesting terms as set forth in his Retention and Restricted Stock Agreement dated as of November 14, 2007. Following the Former Executive's completion of three months of transition assistance after the Commencement Date, the Company will accelerate the vesting of 375,000 shares of restricted stock awarded to the Former Executive. Accordingly, the unrecognized expense of \$1.9 million at May 16, 2008 related to these shares is being amortized ratably through September 13, 2008, the accelerated vesting date and the last day of the transition period, during which the Former Executive will provide transition assistance to the Executive. The Company recorded \$0.7 million in the three months ended June 30, 2008 related to the accelerated vesting of these shares.

On January 25, 2008, the Company's Board of Directors approved the Amended and Restated 2000 Employee Stock Purchase Plan (the "Amended and Restated ESPP"). The Amended and Restated ESPP provides for six-month consecutive offering periods commencing with the March 1, 2008 purchase period. The purchase price of the stock is equal to 85% of the market price on the last day of the offering period. The Company recorded \$0.2 million and \$4.4 million of stock-based compensation expense in the three and six months ended June 30, 2008, respectively. Under the Amended and Restated ESPP, because employees are entitled to purchase a variable number of shares for a fixed monetary amount, future awards are classified as share-based liabilities and recorded at fair value. The Company will reclassify these liabilities to Additional paid-in capital at the time of the share purchase, which is the date of the award. The Company recorded \$5.2 million and \$6.4 million, respectively, of stock-based compensation expense related to the original ESPP in the three and six months ended June 30, 2007.

The Company recorded \$5.0 million and \$14.6 million of stock-based compensation expense for the three months ended June 30, 2008 and 2007, respectively, and \$13.2 million and \$23.5 million for the six months ended June 30, 2008 and 2007, respectively. These amounts are included as components

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(11) STOCK-BASED COMPENSATION (Continued)

of the following expense categories in the condensed consolidated statements of operations (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Product cost of revenue	\$ 165	\$ 188	\$ 351	\$ 278
Service cost of revenue	454	1,023	1,602	1,605
Research and development	1,395	6,482	5,084	9,691
Sales and marketing	1,024	5,699	2,917	9,221
General and administrative	1,934	1,225	3,226	2,691
	<u>\$4,972</u>	<u>\$14,617</u>	<u>\$13,180</u>	<u>\$23,486</u>

At June 30, 2008, there was \$52.2 million of unrecognized compensation cost related to share-based awards, which is expected to be recognized over a weighted average period of approximately three years.

*Valuation Assumptions*

The grant-date fair values of options to purchase common stock granted in the three and six months ended June 30, 2008 and 2007, excluding the stock options granted to the Executive described above, were estimated using the Black-Scholes valuation model with the following assumptions:

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Risk-free interest rate	3.12%	4.8%	2.75%–3.12%	4.7%
Expected dividend yield	—	—	—	—
Expected volatility	71.34%	62.4%	70.94%–71.34%	57.5%–62.4%
Weighted average volatility	71.34%	62.4%	71.19%	60.1%
Expected life (years)	4.5	4.5	4.5	4.5

The grant date fair value of the option to purchase 500,000 shares of the Company's common stock granted to the Executive was estimated using the Black-Scholes valuation model with the following assumptions:

Risk-free interest rate	3.84%
Expected dividend yield	—
Expected volatility	77.25%
Expected life (years)	6.0

Based on the above assumptions, the weighted average fair values of stock options granted during the three months ended June 30, 2008 and 2007 were \$2.57 and \$4.46, respectively. The weighted average fair values of stock options granted during the six months ended June 30, 2008 and 2007 were \$2.43 and \$4.16, respectively.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(11) STOCK-BASED COMPENSATION (Continued)

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

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008*	2007
Risk-free interest rate	N/A	3.6%–5.1%	3.6%–5.1%	3.6%–5.1%
Expected dividend yield	N/A	—	—	—
Expected volatility	N/A	46%–79%	46%–79%	46%–79%
Expected life (years)	N/A	0.33–2.0	0.5–2.0	0.33–2.0

\* For the period from January 1, 2008 through February 29, 2008.

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

*Stock Option and Restricted Stock Grant Activity*

The activity related to the Company's outstanding stock options during the six months ended June 30, 2008 is as follows:

Stock Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2008	38,769,859	\$ 5.35		
Granted	2,281,280	\$ 4.31		
Exercised	(100,928)	\$ 2.62		
Forfeited	(760,500)	\$ 5.65		
Expired	(687,748)	\$ 4.93		
Outstanding at June 30, 2008	39,501,963	\$ 5.30	6.22	\$ 1,018
Vested or expected to vest at June 30, 2008	37,792,558	\$ 5.28	6.09	\$ 1,013
Exercisable at June 30, 2008	26,642,082	\$ 5.12	4.86	\$ 984

**SONUS NETWORKS, INC.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(Unaudited)**

**(11) STOCK-BASED COMPENSATION (Continued)**

The activity related to the Company's nonvested restricted stock awards for the six months ended June 30, 2008 is as follows:

	Shares	Weighted Average Grant- date Fair Value
Nonvested balance at January 1, 2008	3,290,100	\$ 5.86
Granted *	1,055,000	\$ 4.55
Vested	(75,625)	\$ 5.09
Forfeited	(66,300)	\$ 5.64
Nonvested balance at June 30, 2008*	4,203,175	\$ 5.50

\* Includes 500,000 shares to be issued to the Executive on January 15, 2009.

**(12) STOCKHOLDER RIGHTS PLAN**

On June 26, 2008, the Company's Board of Directors adopted a three-year stockholder rights plan (the "Rights Plan"). The Rights Plan is designed to protect stockholders, to the extent possible, from a creeping acquisition and other tactics to gain control of the Company without offering all stockholders an adequate price and control premium. The Rights Plan is intended to protect the interests of all the Company's stockholders and to provide the Company's Board of Directors with the ability to attempt to maximize long-term stockholder value.

Under the Rights Plan, preferred stock purchase rights (the "Rights") will be distributed as a dividend at the rate of one Right per share of common stock of the Company held by stockholders of record as of the close of business on July 7, 2008. Each Right entitles the stockholder to purchase from the Company a unit consisting of one one-thousandth of a share (a "Unit") of preferred stock at a purchase price of \$25.00 per Unit, subject to adjustment. The Rights will be issued as a non-taxable dividend and will expire on June 26, 2011 unless earlier redeemed or exchanged.

The Rights generally will be exercisable only if a person or group acquires beneficial ownership of 15% or more of the Company's common stock (which includes for this purpose shares of common stock referenced in derivative transactions or securities), or commences or publicly announces a tender or exchange offer upon consummation of which they would beneficially own 15% or more of the Company's common stock. A person or group who beneficially owned 15% or more of the outstanding shares of the Company's common stock prior to the adoption of the Rights Plan did not cause the Rights to become exercisable upon adoption of the Rights Plan. As a result, the Rights will not be triggered even though Legatum Capital Limited ("Legatum") and its affiliates have reported that they beneficially owned approximately 25% of the outstanding shares of the Company's common stock prior to the adoption of the Rights Plan based on Legatum's public filings. However, Legatum and its affiliates will cause the Rights to become exercisable if they (subject to certain limited exceptions) become the beneficial owner of additional shares of the Company's common stock or their beneficial ownership decreases below 15% and subsequently increases to 15% or more. Should the Rights become

**SONUS NETWORKS, INC.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(Unaudited)**

**(12) STOCKHOLDER RIGHTS PLAN (Continued)**

exercisable, the effect would be to dilute the ownership of the beneficial owner(s) who triggered the Rights, as that beneficial owner or group of owners would not receive the Rights.

**(13) MAJOR CUSTOMERS**

The following customers each contributed at least 10% of the Company's revenue in at least one of the three and six month periods ended June 30, 2008 and 2007:

Customer	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
A	40%	36%	38%	40%
B	12%	*	*	*

\* Represents less than 10% of revenue.

At June 30, 2008 and December 31, 2007, one customer and two customers, respectively, each accounted for at least 10% of the Company's accounts receivable balance, representing totals of approximately 43% and 28%, respectively, of Sonus' accounts receivable balances. The Company performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable. Sonus maintains an allowance for doubtful accounts and such losses have been within management's expectations.

**(14) GEOGRAPHIC INFORMATION**

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

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
United States	80%	75%	82%	79%
Japan	14	13	9	10
Europe, Middle East and Africa	5	11	8	9
Other	1	1	1	2
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

**(15) CONTINGENCIES**

***2001 IPO Litigation***

In November 2001, a purchaser of the Company's common stock filed a complaint in the United States District Court for the Southern District of New York against Sonus, two of its officers and the lead underwriters alleging violations of the federal securities laws in connection with Sonus' initial public offering ("IPO") and seeking unspecified monetary damages. The purchaser seeks to represent a

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(15) CONTINGENCIES (Continued)

class of persons who purchased the Company's common stock between the IPO on May 24, 2000 and December 6, 2000. An amended complaint was filed in April 2002. The amended complaint alleges that the Company's registration statement contained false or misleading information or omitted to state material facts concerning the alleged receipt of undisclosed compensation by the underwriters and the existence of undisclosed arrangements between the underwriters and certain purchasers to make additional purchases in the after market. The claims against Sonus are asserted under Section 10(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Section 11 of the Securities Act of 1933 (the "Securities Act") and against the individual defendants under Sections 11 and 15 of the Securities Act and Sections 10(b) and 20(a) of the Exchange Act. Other plaintiffs have filed substantially similar class action cases against approximately 300 other publicly traded companies and their IPO underwriters which, along with the actions against Sonus, have been transferred to a single federal judge for purposes of coordinated case management. On July 15, 2002, Sonus, together with the other issuers named as defendants in these coordinated proceedings, filed a collective motion to dismiss the consolidated amended complaints on various legal grounds common to all or most of the issuer defendants. The plaintiffs voluntarily dismissed the claims against many of the individual defendants, including Sonus' officers named in the complaint. On February 19, 2003, the court granted a portion of the motion to dismiss by dismissing the Section 10(b) claims against certain defendants including Sonus, but denied the remainder of the motion as to the defendants. In June 2003, a special committee of the Company's Board of Directors authorized Sonus to enter into a proposed settlement with the plaintiffs on terms substantially consistent with the terms of a Memorandum of Understanding negotiated among representatives of the plaintiffs, the issuer defendants and the insurers for the issuer defendants. In October 2004, the court certified the class in a case against certain defendants. On February 15, 2005, the court preliminarily approved the terms of the proposed settlement contingent on modifications to the proposed settlement. On August 31, 2005, the court approved the terms of the proposed settlement, as modified. On April 24, 2006, the court held a hearing on a motion to approve the final settlement and took the matter under advisement. On December 5, 2006, the Court of Appeals for the Second Circuit reversed the court's October 2004 order certifying a class. On June 25, 2007, the court entered an order terminating the settlement. Accordingly, the Company is unable to determine the ultimate outcome or potential range of loss, if any.

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

*2002 Securities Litigation*

Beginning in July 2002, several purchasers of the Company's common stock filed complaints in the United States District Court for the District of Massachusetts against Sonus, certain officers and directors and a former officer under Sections 10(b) and 20(a) and Rule 10b-5 of the Exchange Act (the



SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(15) CONTINGENCIES (Continued)

"Class Action Complaints"). The purchasers seek to represent a class of persons who purchased the Company's common stock between December 11, 2000 and January 16, 2002, and seek unspecified monetary damages. The Class Action Complaints were essentially identical and alleged that Sonus made false and misleading statements about its products and business. On March 3, 2003, the plaintiffs filed a Consolidated Amended Complaint. On April 22, 2003, the Company filed a motion to dismiss the Consolidated Amended Complaint on various grounds. On May 11, 2004, the court held oral argument on the motion, at the conclusion of which the court denied Sonus' motion to dismiss. The plaintiffs filed a motion for class certification on July 30, 2004. On February 16, 2005, the court certified the class and appointed a class representative. On March 9, 2005, the court appointed the law firm of Moulton & Gans as lead counsel. After the court requested additional briefing on the adequacy of the class representative, the class representative withdrew. Lead counsel then filed a motion to substitute a new plaintiff as the class representative. On May 19, 2005, the court held a hearing on the motion and took the matter under advisement. On August 15, 2005, the court issued an order decertifying the class and requiring the parties to submit a joint report informing the court whether the cases have been settled and whether defendants would be seeking to recover attorney's fees from the plaintiffs. On September 30, 2005, the plaintiffs filed motions to voluntarily dismiss their complaints with prejudice. On October 5, 2005, the court entered an order dismissing the cases. On June 26, 2006, the court issued an order denying Sonus' motion for recovery of attorneys' fees.

On January 6, 2006, a purchaser of the Company's common stock filed a complaint in the United States District Court for the District of Massachusetts that is essentially identical to the Consolidated Amended Complaint previously filed against the defendants. The court has appointed the Public Employees' Retirement System of Mississippi as lead plaintiff. The lead plaintiff has filed an Amended Consolidated Complaint. On April 19, 2007, the defendants filed a motion to dismiss the Amended Consolidated Complaint. The court has scheduled a hearing on the motion for September 18, 2008. There is no assurance Sonus will prevail in such a motion or defending this action. A judgment or a settlement of the claims against the defendants could have a material impact on the Company's financial results. It is too early to determine the ultimate outcome or potential range of loss, if any. The Company does not have any directors and officers insurance available for this claim.

***2004 Restatement Litigation***

Beginning in February 2004, a number of purported shareholder class action complaints were filed in the United States District Court for the District of Massachusetts against Sonus and certain of its current officers and directors. On June 28, 2004, the court consolidated the claims. On December 1, 2004, the lead plaintiff filed a consolidated amended complaint. On November 7, 2007, the Company and the plaintiff agreed to settle the litigation for \$40 million. On March 31, 2008, the court approved the settlement and the settlement was paid from funds held in escrow.

***Patent Litigation***

On June 14, 2006, C2 Communications ("C2") sued AT&T, Inc., Verizon Communications, Inc., Qwest, Bellsouth Corporation, Sprint Nextel Corporation, Global Crossing and Level 3 in the Eastern District of Texas, Marshall Division. C2 has alleged that each of the defendants infringe U.S. Patent No. 6,243,373 entitled "Method and Apparatus for Implementing a Computer Network Internet

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(15) CONTINGENCIES (Continued)

Telephone System." Sonus has agreed, subject to certain conditions, to assume the defense of Qwest, Global Crossing and Level 3 in this litigation to the extent the claim results from their use of products purchased from Sonus. A court-ordered mediation was held on May 29, 2008. On June 13, 2008, the court issued a Memorandum Opinion and Order on the claim construction of the C2 patent. On July 3, 2008, Qwest, Global Crossing and Level 3 filed motions for summary judgment asserting that the C2 patent is invalid. On July 29, 2008, C2 filed oppositions to the motions for summary judgment. The trial is scheduled to commence in September 2008. Sonus believes that the defendants have substantial legal and factual defenses to the infringement claim, which the Company intends to pursue vigorously on behalf of the defendants for whom Sonus has agreed to assume defense of the litigation. However, there is no assurance any of the defendants will prevail in defending this action. There also can be no assurance that Sonus will not be required to indemnify any of the defendants from any judgment of infringement rendered against them. Sonus will continue to devote significant time and resources in connection with assuming the defense of the claim of infringement on behalf of the defendants for whom Sonus has agreed to assume defense of the litigation. An adverse outcome with respect to the claim and Sonus' indemnification could have a material adverse impact on Sonus' business, operating results and financial condition. Sonus cannot predict the ultimate outcome of this litigation or any potential impact on the Company's operating results or financial position. Sonus has incurred and expects to continue to incur significant legal and expert fees in connection with this litigation.

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

Sonus includes standard intellectual property indemnification provisions in its product agreements in the ordinary course of business. Pursuant to its product agreements, Sonus will indemnify, hold harmless, and reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally business partners or customers, in connection with certain patent, copyright or other intellectual property infringement claims by third parties with respect to Sonus products. Other agreements with Sonus' customers provide indemnification for claims relating to property damage or personal injury resulting from the performance of services by Sonus or its subcontractors. Although historically Sonus' costs to defend lawsuits or settle claims relating to such indemnity agreements have been insignificant, these costs were significant in the second quarter of fiscal 2008 and may continue to be significant in future periods.

***2006 Stock Option Accounting Investigation***

As announced on March 19, 2007, the SEC is conducting a formal private investigation into Sonus' historical stock option granting practices. If the Company is subject to adverse findings, it could be required to pay damages or penalties or have other remedies imposed, including criminal penalties,

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(15) CONTINGENCIES (Continued)

which could adversely impact Sonus' business, financial position or results of operations. At this time, the Company is unable to determine the ultimate outcome of the investigation.

*IRS Employment Tax Audit*

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

*Employment Litigation*

On February 19, 2008, James Collier, Sonus' former Vice President of Sales, filed a complaint against the Company in the United States District Court for the District of New Jersey. The complaint alleges that the Company breached Mr. Collier's employment agreement by failing to pay severance in the amount of \$600,000 and provide benefits claimed to be owed under the employment agreement. The parties have agreed to settle the claim. The settlement will not have a material impact on the Company's financial position or results of operations.

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

*This Quarterly Report on Form 10-Q and, in particular, this Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements, which are subject to a number of risks and uncertainties. The words "could", "expects", "may", "anticipates", "believes", "intends", "estimates", "plans", "envisions", "seeks", "will" and other similar language whether in the negative or affirmative are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These forward-looking statements are based on our current expectations, assumptions, estimates, forecasts and projections about the operating environment, economies and markets in which we operate, and we do not undertake an obligation to update our forward-looking statements to reflect new information, future events or circumstances. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, the factors set forth in Item 1A. "Risk Factors" of Part II of this Quarterly Report on Form 10-Q. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial also may materially adversely affect our business, results of operations, financial condition and/or liquidity. This discussion should be read in conjunction with the unaudited condensed consolidated financial statements and related notes for the periods specified. Further reference should be made to our Annual Report on Form 10-K for the year ended December 31, 2007.*

### **Overview**

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

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

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

In the first three quarters of fiscal 2007 and for the entire fiscal year 2007, we incurred net losses. In these periods, the net losses resulted primarily from operating expenses, in particular, stock-based compensation expense and legal and audit-related expenses, that increased at a greater rate than the increase in our revenue during those periods. We intend to enhance our expense management

processes related to our operating expenses. However, we anticipate that we may incur net losses in future quarters and years.

We reported income from operations of \$3.9 million and \$0.6 million for the three and six months ended June 30, 2008, respectively, compared to losses from operations of \$15.4 million and \$25.7 million for the three and six months ended June 30, 2007, respectively. Our net income for the three and six months ended June 30, 2008 was \$0.1 million and \$0.7 million, respectively, compared to net losses of \$7.0 million and \$11.0 million for the three and six months ended June 30, 2007, respectively. Major contributors to our improved performance in the current fiscal year, both on an operating and net income level, were reductions of \$9.6 million and \$10.3 million in stock-based compensation for the three and six months ended June 30, 2008, compared to the same prior year periods, coupled with improved product gross margin performance in the current year. Our lower stock-based compensation expense in the current year primarily resulted from the completion in 2007 of our stock option review, which had necessitated modifications to stock options held by both current and former employees to allow them to exercise options that would otherwise have expired, as well as to extend the purchase periods under our Employee Stock Purchase Plan. These award modifications contributed to the significant additional stock-based compensation expense. These improvements were partially offset by \$3.6 million of charges for the impairment of intangible assets and goodwill related to the April 2007 acquisition of Zynetix.

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

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

#### **Acquisition of Atreus Systems, Inc.**

On April 18, 2008, we completed the acquisition of Atreus Systems, Inc. and its subsidiaries ("Atreus"), a privately-held company with its principal office located in Ottawa, Canada. Atreus is a supplier of service provisioning software for VoIP and IMS-based services. In consideration, we paid the selling stockholders \$4.8 million and incurred \$0.2 million of costs. We believe the addition of Atreus solutions to the Sonus product portfolio will allow us to provide comprehensive integration services for operators' growing IP-service portfolios. The operating results of Atreus have been included in our condensed consolidated financial statements for the period subsequent to its acquisition.

#### **Critical Accounting Policies and Estimates**

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

and projections, there could be a material effect on our financial statements. The significant accounting policies that we believe are the most critical include the following:

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

For a complete discussion of our critical accounting policies and estimates, refer to our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which was filed with the SEC on March 6, 2008. There were no significant changes to our critical accounting policies during the six months ended June 30, 2008, with the exception of the following addition to our revenue recognition policy:

In fiscal 2008, we began to enter into arrangements to deliver software or a software system, either alone or combined with other products or services, that require significant production, modification or customization. We are accounting for these arrangements under AICPA Statement of Position No. 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* ("SOP 81-1"). For arrangements accounted for under SOP 81-1, all development costs are deferred until the related revenue is recognized. We are recognizing the current arrangements using the completed contract method; however, we will use the percentage-of-completion method when we have established a history of making dependable estimates under that method. We did not have any arrangements under SOP 81-1 for which we recognized revenue in either the three or six months ended June 30, 2008.

### **Results of Operations**

#### **Three and Six Months Ended June 30, 2008 and 2007**

**Revenue.** Revenue for the three months and six months ended June 30, 2008 and 2007 was as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Product	\$62,403	\$52,171	\$113,387	\$103,798
Service	25,488	23,322	48,527	42,841
<b>Total revenue</b>	<b>\$87,891</b>	<b>\$75,493</b>	<b>\$161,914</b>	<b>\$146,639</b>

Product revenue is comprised of sales of our voice infrastructure products, including our GSX9000™ and GSX4000™ Open Services Switches, NBS™ Network Border Switch, PSX™ Call Routing Server, SGX™ Signaling Gateway, ASX™ Call Feature Server, IMX® Application Platform, Sonus Insight™ Management System and related product offerings. Product revenue for the three months ended June 30, 2008 increased \$10.2 million, or 19.6%, compared to the same period in the prior year. Product revenue for the six months ended June 30, 2008, increased \$9.6 million, or 9.2%, compared to the six months ended June 30, 2007. The increase in both current year periods is

attributable to increased product sales and shipments, including the completion of the deployment of our products into new and expanded customer networks.

Service revenue is primarily comprised of hardware and software maintenance and support, network design, installation and other professional services. Service revenue increased 9.3% in the three months ended June 30, 2008, compared to the same prior year period. Service revenue increased 13.3% in the six months ended June 30, 2008, compared to same prior year period. The increase in both current periods is primarily attributable to higher maintenance revenue related to our growing installed base, as well as the timing of cash collections from customers for whom revenue is recognized as cash is collected.

AT&T contributed more than 10% of our revenue in both three and six month periods ended June 30, 2008 and 2007. In addition, KDDI Corporation contributed more than 10% of our revenue in the three months ended June 30, 2008. There were no other customers that contributed more than 10% of our revenue in either period.

International revenue was approximately 20% and 25% of revenue in the three month periods ended June 30, 2008 and 2007, respectively, and 18% and 21% of revenue in the six month periods then ended. We expect that international revenue will fluctuate as a percentage of revenue from quarter to quarter.

Our deferred product revenue was \$38.1 million and \$44.1 million at June 30, 2008 and December 31, 2007, respectively. Our deferred service revenue was \$56.5 million and \$55.1 million at June 30, 2008 and December 31, 2007, respectively. Our deferred revenue balance may fluctuate as a result of the timing of revenue recognition, customer payments, maintenance contract renewals, contractual billing rights, customer creditworthiness and maintenance revenue deferrals included in multiple element arrangements.

**Cost of Revenue/Gross Profit.** Our cost of revenue consists primarily of the cost of products purchased by our customers and services, royalties, manufacturing and professional services personnel and related costs and inventory obsolescence. Our products are produced by a third-party manufacturer.

Our cost of revenue and gross profit as a percentage of revenue for the three and six months ended June 30, 2008 and 2007 were as follows (in thousands, except percentages):

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Cost of revenue				
Product	\$18,309	\$23,561	\$35,129	\$40,643
Service	11,476	9,563	22,551	18,142
Total cost of revenue	<u>\$29,785</u>	<u>\$33,124</u>	<u>\$57,680</u>	<u>\$58,785</u>
Gross profit margin (% of respective revenue)				
Product	70.7%	54.8%	69.0%	60.8%
Service	55.0%	59.0%	53.5%	57.7%
Total gross profit margin	66.1%	56.1%	64.4%	59.9%

The increase in product gross profit as a percentage of revenue ("product gross margin") was primarily due to product and customer mix. The decrease in service gross profit as a percentage of service revenue ("service gross margin") was primarily due to increased personnel costs to support our global expansion efforts. We believe that our gross margin over time will be within our long-term financial model of 58% to 62%.

**Research and Development Expenses.** Research and development expenses consist primarily of salaries and related personnel expenses and prototype costs related to the design, development, testing and enhancement of our products. Research and development expenses were \$18.4 million for the three months ended June 30, 2008, a decrease of \$3.9 million, or 17.7%, from \$22.3 million in the same prior year period. Research and development expenses for the six months ended June 30, 2008 were \$38.9 million, a decrease of \$2.1 million, or 5.2%, from \$41.0 million in the same prior year period. The decreases in both the three and six month periods of the current year primarily reflect \$5.1 million and \$4.6 million, respectively, of lower stock-based compensation expense, partially offset by higher salary and related expenses associated with increased headcount. Some aspects of our research and development efforts require significant short-term expenditures, the timing of which can cause significant variability in our expenses. We believe that rapid technological innovation is critical to our long-term success, and we are tailoring our investments to meet the requirements of our customers and market.

**Sales and Marketing Expenses.** Sales and marketing expenses consist primarily of salaries and related personnel costs, commissions, travel and entertainment expenses, promotions, customer evaluation inventory and other marketing and sales support expenses. Sales and marketing expenses were \$19.4 million for the three months ended June 30, 2008, a decrease of \$1.8 million, or 8.7%, compared to \$21.2 million in the three months ended June 30, 2007. Sales and marketing expenses were \$38.3 million for the six months ended June 30, 2008, a decrease of \$6.0 million, or 13.5%, from \$44.3 million in the same prior year period. The current period decreases are primarily attributable to lower commission and stock-based compensation expense, coupled with a decrease in evaluation equipment costs. In the six months ended June 30, 2007, commission expense included certain orders received in fiscal 2006 that were recognized in 2007 at an accelerated commission rate. Lower stock-based compensation costs accounted for \$4.7 million and \$6.3 million of the decrease in sales and marketing expenses in the three and six months ended June 30, 2008, respectively, compared to the same periods of the prior year. These amounts were partially offset by higher personnel-related costs primarily related to our expansion of our worldwide sales and support coverage.

**General and Administrative Expenses.** General and administrative expenses consist primarily of salaries and related personnel costs for executive and administrative personnel, recruiting expenses, allowance for doubtful accounts and professional fees. General and administrative expenses were \$12.8 million in the three months ended June 30, 2008, a decrease of \$1.4 million, or 10.1%, compared to \$14.2 million in the three months ended June 30, 2007. General and administrative expenses were \$22.8 million in the six months ended June 30, 2008, a decrease of \$5.5 million, or 19.4%, compared to \$28.3 million in the same prior year period. The decreases in the current year periods are primarily attributable to the completion of the stock option review in fiscal 2007. These decreases were partially offset by \$0.9 million and \$1.4 million of higher legal costs in the three and six months ended June 30, 2008, respectively, coupled with \$0.7 million and \$0.5 million of higher stock-based compensation expense, compared to the same prior year periods.

**Impairment of Intangible Assets and Goodwill.** In connection with the preparation of our financial statements for the second quarter of fiscal 2008 and the update of our sales forecast for the second half of the fiscal year, we conducted a review of intangible assets and goodwill for impairment indicators, during which we determined that there were no impairment indicators related to the intangible assets and goodwill allocated to the Sonus reporting unit. However, this review identified several indicators related to the intangible assets and goodwill allocated to the Zynetix reporting unit, including significant underperformance relative to plan or long-term projections. In response, we performed an assessment of the carrying value of our intangible assets and goodwill. As a result, we recorded a charge to operations of \$3.6 million for the write-down of intangible assets and goodwill. Of this charge, \$1.5 million relates to intangible assets and \$2.1 million relates to goodwill. We adjusted the cost basis of the intangible assets and goodwill to their new respective fair values as a result of the impairment.



**Interest Income, net.** Interest income, net of interest expense, was \$3.2 million and \$7.2 million in the three and six months ended June 30, 2008, respectively, compared to \$4.4 million and \$9.1 million in the three and six months ended June 30, 2007, respectively. Interest income consists of interest earned on our cash equivalents, marketable securities and long-term investments. Interest expense primarily relates to interest on capital lease obligations. The reduction in interest income, net, in the current year period is primarily the result of lower interest rates.

**Other Income (Expense), net.** We recorded \$6,000 and \$0.4 million of other income in the three and six months ended June 30, 2008, respectively. We recorded \$0.3 million and \$0.9 million of other expense in the three and six months ended June 30, 2007 to reflect the change in fair value of stock options modified subsequent to the departure of former employees which are accounted for as derivatives.

**Income Taxes.** The provision for income taxes reflects our estimate of the effective rate expected to be applicable for the full fiscal year, adjusted for any discrete events, which are reported in the period that they occur. This estimate is reevaluated each quarter based on our estimated tax expense for the full fiscal year. Our effective tax rate, including discrete items, was 91.5% and 37.8% for the six months ended June 30, 2008 and 2007, respectively. The increase in our effective tax rate for the six months ended June 30, 2008 over the statutory federal and state rates is primarily attributable to our revised forecasted mix of earnings by country in the second half of the year which includes losses in certain foreign countries for which we are unable to recognize a tax benefit, and the impact of permanent nondeductible items, such as stock-based compensation expense. In addition, our effective tax rate for the first half of 2008 does not include any benefit related to the federal research and development tax credit, as this tax law expired at the end of 2007.

The income tax provision of \$7.5 million in the six months ended June 30, 2008 primarily reflects a current provision for federal, state and foreign taxes. The income tax benefit of \$6.6 million in the six months ended June 30, 2007 primarily reflects a current benefit for federal, state and foreign taxes.

#### **Off-balance Sheet Arrangements**

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

#### **Liquidity and Capital Resources**

At June 30, 2008, our cash, cash equivalents, marketable securities and investments totaled \$397.8 million.

Our operating activities used \$13.2 million of cash in the six months ended June 30, 2008. Net income and adjustments for non-cash items including stock-based compensation, depreciation and amortization of property and equipment and intangible assets, impairment of goodwill and deferred income taxes provided \$32.3 million of cash. These non-cash adjustments were further benefited from decreases in accounts receivable and other operating assets. These amounts were more than offset by the release of the \$25.0 million litigation settlement held in escrow to the plaintiffs, coupled with lower levels of accrued expenses, including deferred rent, accounts payable and deferred revenue, as well as an increase in inventory. The lower accounts receivable levels are the result of our efforts on cash collections. On March 31, 2008, our proposed litigation settlement was approved by the court. Accordingly, the amounts that had been placed into escrow by us and our insurer were released to the plaintiff, and we eliminated the related liability and insurance receivable included in our condensed consolidated balance sheet at December 31, 2007. As a result, our cash flows from operating activities were negatively affected by the release at March 31, 2008 of the \$25.0 million we had previously placed into an escrow account. The decrease in accrued expenses is primarily attributable to lower employee

compensation and related costs, including reductions for the payment of bonuses to our executives and employees under our bonus programs, payments for royalties and professional fees previously accrued, the completion of an employee stock purchase under our original ESPP and lower ESPP withholdings under the Amended and Restated ESPP.

Our investing activities provided \$35.7 million of cash in the six months ended June 30, 2008, primarily comprised of \$20.1 million of net sales and maturities of marketable securities and long-term investments and \$25.0 million related to the release at March 31, 2008 of the \$25.0 million in the litigation settlement escrow account as a result of the court's approval of the settlement agreement and the release of those funds to the plaintiffs. These amounts were partially offset by cash payments aggregating \$5.0 million for our April 18, 2008 acquisition of Atrius and \$4.4 million of investments in property and equipment.

Our financing activities provided \$2.4 million of cash in the six months ended June 30, 2008, including \$2.2 million of proceeds from the sale of common stock in connection with our ESPP and \$0.4 million of proceeds from the exercise of stock options. These proceeds were partially offset by \$0.1 million used for payments on our capital leases for office equipment and \$0.1 million used to pay withholding obligations related to the net share settlement of restricted stock awards upon vesting.

Based on our current expectations, we believe our cash, cash equivalents, marketable debt securities and long-term investments will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least 12 months. Additionally, during the second quarter of 2008 we transferred our held-to-maturity marketable securities and investments to the available-for-sale category. This change allows us to better take advantage of investing, acquisition and related opportunities. It is difficult to predict future liquidity requirements with certainty, and the rate at which we will consume cash will be dependent on the cash needs of future operations, including changes in working capital, which will, in turn, be directly affected by the levels of demand for our products, the timing and rate of expansion of our business, the resources we devote to developing our products and any litigation settlements. We anticipate devoting substantial capital resources to continue our research and development efforts, to maintain our sales, support and marketing operations, to improve our internal control environment and for other general corporate activities, as well as to vigorously defend against existing and potential litigation. See Note 15 to our condensed consolidated financial statements.

#### **Recent Accounting Pronouncements**

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

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS 141R"), which revises SFAS No. 141. SFAS 141R establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities

assumed and any non-controlling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for fiscal years beginning after December 15, 2008; early adoption is not permitted. The adoption of SFAS 141R will have an impact on accounting for business combinations once adopted, but the effect is dependent upon acquisitions at that time.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

### **Item 4. Controls and Procedures**

#### **Disclosure Controls and Procedures**

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934 (the "Exchange Act") as of June 30, 2008. The term "disclosure controls and procedures," as defined in Rule 13a-15(e), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

In our Management's Report on Internal Control over Financial Reporting filed with our Annual Report on Form 10-K for the year ended December 31, 2007, we reported material weaknesses in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). During the quarter ended June 30, 2008, we continued to design enhancements to our controls and implemented a number of changes to address the reported material weaknesses.

We are continuing to refine the processes and review procedures associated with the accounting for stock-based compensation. Specifically the refinements include enhanced communication and awareness of modifications to awards across a larger cross-functional audience. While we believe that the cumulative effect of the modifications we have implemented and tested through June 30, 2008 have improved our controls relating to our accounting for stock-based compensation, we believe that we have not fully remediated the material weakness as of June 30, 2008.

Although we continued to make progress this quarter, we believe that the material weakness relating to financial statement preparation and review procedures has not yet been fully remediated as of June 30, 2008. Therefore, we have concluded that our disclosure controls and procedures were not effective as of June 30, 2008.

#### **Changes in Internal Control over Financial Reporting**

We discuss below the material changes to our internal control over financial reporting relating to the two reported material weaknesses and the remediation steps we are taking through the end of 2008.

***Inadequate financial statement preparation and review procedures.***

During the quarter ended June 30, 2008, we initiated several programs and enhanced processes and systems in order to improve our financial statement preparation and review procedures as set forth below:

- Initiated cost center reporting within our enterprise resource planning ("ERP") system for the comparison of actual costs to budget.
- Initiated efforts to improve the quarterly internal financial review of our international operations. Specifically, we have hired an international financial analyst to perform regular detailed reviews of the international accounts. In addition, we have standardized the financial information presented in the quarterly review package, which will allow for more thorough analytical review.
- Initiated the process of creating a standardized monthly management reporting package that will report on certain defined business and financial metrics at the functional group level. This reporting will give the executive management team better insight into our results of operations and operational performance.
- Implemented a formal joint review process of our quarterly results of operations by our Accounting and Financial Planning and Analysis Departments.
- During the month of May we created a new senior level role within the accounting group (Assistant Corporate Controller). The position has been filled with a certified public accountant who has been with the Company for three years. His chief responsibility is to oversee all of the domestic and international accounting functions of the Company. This will strengthen the Company's internal control by introducing a new layer of detailed review of the Company's accounting transactions.

In addition, during the month of May, we announced that our Director of Business Process Improvement has also assumed the role of Corporate Controller and Vice President of Finance. This will allow for better integration of the improvement to our financial systems and business processes within our financial reporting process. Because the Corporate Controller is now directly involved in the cross-functional discussions concerning the Company's business processes, he will now be better able to coordinate improved automation of the Company's ERP system. With increased automation, the Company will be able to reduce the inherent control risks associated with manual processes.

We continued to dedicate resources within the finance, human resources and information technology organizations to develop and implement continued improvements and enhancements to our ERP system and other internal systems and processes that impact our financial statement preparation and review procedures.

Although we made improvements in our financial statement preparation and review procedures in the quarter, we continue work on further enhancing and automating our systems and processes and thus continue to strengthen our internal control over financial reporting. Some of the corrective actions with respect to financial statement preparation and review procedures that we currently intend to take include:

- Deploy and implement an automated web-based product configuration and quoting tool to allow our sales organization to provide accurate and timely quotes to our customers. By automating our quoting process, we will improve the accuracy of transactional information that feeds into the Company's ERP system, resulting in fewer manual accounting adjustments needed to properly record a transaction in the Company's general ledger.

- Continue to enhance and modify as appropriate our accounting policies, procedures and documentation to provide reasonable assurance that our control objectives are met.
- Enhance our ERP system for customer maintenance invoicing, tax calculations and exemption status, approvals for the payment of invoices and the reporting of accounts payable to provide reasonable assurance of the complete and accurate recording of these accounts in the general ledger and financial statements. These enhancements will also reduce the amount of manual transactions (and the inherent increased control risks that manual processes contain as opposed to automated processes). The reduction of manual transactions will allow us to complete our close cycles more quickly, which in turn will allow more time to review and analyze the details of the recorded transactions and insure that all transactions have been properly recorded.
- Improve the quality and accuracy of data in our human resources ERP system and allow the accounting function to rely on certain data when determining the amounts of period-end accrual balances required to properly reflect our accounting records.
- Design an automated process and enhance our ERP system to eliminate the remaining manual creation and processing of invoices for customers.
- Streamline the account payables accrual reconciliation process so that adjustments to accruals are captured upon receipt of payment for the payables covered by the accruals.
- Hire additional resources in our tax department.
- Hire a Chief Information Officer to manage and continually enhance our financial and other systems that impact our transaction and financial reporting processes.

The foregoing corrective actions will affect all accounts. We expect to implement these corrective actions in the third and fourth quarters of 2008.

We will continue to evaluate, design and implement additional policies, procedures and controls as required during the remediation of this material weakness. None of the aforementioned projects for either of the reported items above, whether completed or contemplated through year-end, are expected to result in any material incremental costs to be incurred by us.

***Inadequate controls over the accounting for stock-based compensation.***

During the quarter ended June 30, 2008, we initiated several programs and enhanced processes and systems in order to improve our accounting for stock-based compensation procedures as set forth below:

- Implemented a cross-functional review process that includes communication with and sign-off by both the legal and human resources departments to ensure modifications to awards are properly identified and verified.
- On a quarterly basis, senior management and the Audit Committee are provided with a report on all modifications to awards that occurred in the period.

We continue to refine the processes and review procedures associated with the accounting for stock-based compensation. Although we believe that the cumulative effect of the changes we have implemented and tested through June 30, 2008 have improved our controls to provide reasonable assurance that our accounting for stock-based compensation is accurate, we believe that the controls have not been in place for a long enough period to enable us to determine that the material weakness over accounting for stock-based compensation has been remediated.

Except as described above, there was no change in our internal control over financial reporting during the quarter ended June 30, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

***Risks and Inherent Limitations***

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

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

## **PART II—OTHER INFORMATION**

### **Item 1. Legal Proceedings**

We are a party to the legal proceedings described in Part I, Item 3, "Legal Proceedings" of our Annual Report on Form 10-K for the year ended December 31, 2007. There have been no material developments with respect to the legal proceedings during the quarter ended June 30, 2008 other than as set forth below.

The United States District Court for the District of Massachusetts has scheduled a hearing for September 18, 2008 on the defendants' motion to dismiss the Amended Consolidated Complaint in the 2002 Securities Litigation.

By letter dated April 23, 2008, Broadvox requested that we assume the defense on its behalf of a patent infringement case filed in the United States District Court for the District of Kansas by Sprint Communications against Broadvox. We have agreed, subject to certain conditions, to assume the defense of Broadvox in this litigation to the extent the claims result from its use of Sonus products.

A court-ordered mediation in the C2 patent litigation was held on May 29, 2008. On July 3, 2008, the defendants filed motions for summary judgment asserting that the C2 patent is invalid. On July 29, 2008, C2 filed oppositions to the motions for summary judgment.

On July 15, 2008, the parties agreed to settle the employment claim brought by James Collier against us. The settlement will not have a material impact on our financial position or results of operations.

For a more detailed discussion of our legal proceedings, please see Note 15 to our condensed consolidated financial statements.

### **Item 1A. Risk Factors**

*Investing in our common stock involves a high degree of risk. Set forth below and elsewhere in this report and in other documents we file with the Securities and Exchange Commission are descriptions of certain risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report. The descriptions below include any material changes to and supersede the description of the risk factors affecting our business previously disclosed in "Part I, Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007.*

#### ***We may continue to incur net losses.***

We have incurred significant losses since inception and, at June 30, 2008, had an accumulated deficit of \$751.2 million. Although we achieved profitability on an annual basis in fiscal 2006, fiscal 2005 and fiscal 2004, we have incurred a net loss in fiscal 2007 and may incur additional losses in future quarters and years. Our revenues may not grow and we may never generate sufficient revenues to sustain profitability.

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

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

their networks. The primary factors that may affect our revenues and operating results include the following:

- a general economic downturn that impacts the purchasing decisions of our significant customers or the timing and size of their orders;
- fluctuation in demand for our voice infrastructure products and the timing and size of customer orders;
- the cancellation or deferral of existing customer orders or the renegotiation of existing contractual commitments;
- the length and variability of the sales cycle for our products;
- the timing of revenue recognition;
- new product introductions and enhancements by our competitors or by us;
- changes in our pricing policies, the pricing policies of our competitors and the prices of the components of our products;
- our ability to develop, introduce and ship new products and product enhancements that meet customer requirements in a timely manner;
- the mix of product configurations sold;
- our ability to obtain sufficient supplies of sole or limited source components;
- our ability to attain and maintain production volumes and quality levels for our products;
- costs related to acquisitions of complementary products, technologies or businesses;
- general economic conditions, as well as those specific to the telecommunications, networking and related industries;
- consolidation within the telecommunications industry, including acquisitions of or by our customers; and
- the application of complex revenue recognition accounting rules to our customer arrangements.

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

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

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

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

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

- continued activism by any single large stockholder or combination of stockholders;



- the addition or loss of any major customer;
- consolidation in the telecommunications industry; changes in the financial condition or anticipated capital expenditure purchases of any existing or potential major customer;
- economic conditions for the telecommunications, networking and related industries;
- quarterly variations in our operating results;
- changes in financial estimates by securities analysts;
- speculation in the press or investment community;
- announcements by us or our competitors of significant contracts, new products or acquisitions, distribution partnerships, joint ventures or capital commitments;
- sales of common stock or other securities by us or by our stockholders in the future;
- securities and other litigation; and
- announcement of a stock split, reverse stock split, stock dividend or similar event.

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

To date, we have shipped our products to a limited number of customers. We expect that in the foreseeable future, the majority of our revenue will continue to depend on sales of our products to a limited number of customers. One customer contributed approximately 38% of our revenue in the six months ended June 30, 2008. One customer contributed approximately 32% of our revenue in fiscal 2007. Three customers each contributed more than 10% of our revenue in fiscal 2006, or approximately 43% of our revenue in the aggregate. Our future success will depend on our ability to attract additional customers beyond our current limited number. The growth of our customer base could be adversely affected by:

- acquisitions of or by our customers;
- customer unwillingness to implement our new voice infrastructure products;
- potential customer concerns with selecting an emerging telecommunications equipment vendor;
- delays or difficulties that we may incur in completing the development and introduction of our planned products or product enhancements;
- deterioration in the general financial condition of service providers or inability to raise capital;
- new product introductions by our competitors;
- failure of our products to perform as expected;
- difficulties we may incur in meeting customers' delivery requirements; or
- economic conditions that discourage potential new customers from making the capital investments required to adopt new technologies.

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

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

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

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

To compete effectively, we must deliver innovative products that:

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

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

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

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

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

International revenues approximated \$30 million in the six months ended June 30, 2008, and \$85 million and \$78 million in fiscal 2007 and fiscal 2006, respectively, and we intend to expand our

sales in international markets. This expansion will require significant management attention and financial resources to successfully develop direct and indirect international sales and support channels. In addition, we may not be able to develop international market demand for our products, which could impair our ability to grow our revenues. We have limited experience marketing, distributing and supporting our products internationally and, to do so, we expect that we will need to develop versions of our products that comply with local standards. Furthermore, international operations are subject to other inherent risks, including:

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

***Consolidation in the telecommunications industry could harm our business.***

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

***Our operating results may be adversely affected by unfavorable economic and market conditions and the uncertain geopolitical environment.***

Economic conditions worldwide have from time to time contributed to slowdowns in the communications and networking industries at large, as well as to specific segments and markets in which we operating, resulting in:

- reduced demand for our products as a result of continued constraints on information technology-related capital spending by our customers, particularly service providers;
- increased price competition for our products, not only from our competitors;
- risk of excess and obsolete inventories; and
- higher overhead costs as a percentage of revenue and higher interest expense.

Recent turmoil in the geopolitical environment in many parts of the world, including terrorist activities and military actions, particularly the continuing tension in and surrounding Iraq, and changes in energy costs may continue to put pressure on global economic conditions. Our operating results and our ability to expand into other international markets may also be affected by changing economic conditions particularly germane to that segment or to particular customer markets within that segment. If global economic and market conditions, or economic conditions in the United States or other key

markets, deteriorate, we may experience material impacts on our business, operating results and financial condition.

***We are exposed to fluctuations in currency exchange rates that could negatively impact our financial results and cash flows.***

Because a portion of our business is conducted outside the United States, we face exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve, and they could have a material adverse impact on our financial results and cash flows. An increase in the value of the dollar could increase the real cost to our customers of our products in those markets outside the United States where we often sell in dollars, and a weakened dollar could increase the cost of local operating expenses and procurement of raw materials from sources outside the United States.

***Man-made problems such as computer viruses or terrorism may disrupt our operations and harm our operating results.***

Despite our implementation of network security measures, our servers are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems. Any such event could have a material adverse effect on our business, operating results and financial condition. Efforts to limit the ability of malicious third parties to disrupt the operations of the Internet or undermine our own security efforts may meet with resistance. In addition, the continued threat of terrorism and heightened security and military action in response to this threat, or any future acts of terrorism, may cause further disruptions to the economies of the United States and other countries and create further uncertainties or otherwise materially harm our business, operating results and financial condition. Likewise, events such as widespread blackouts could have similar negative impacts. The extent that such disruptions or uncertainties result in delays or cancellations of customer orders or the manufacture or shipment of our products, our business, operating results and financial condition could be materially and adversely affected.

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

We adopted a three-year limited duration stockholder rights plan, commonly referred to as a "poison pill," on June 26, 2008. The stockholder rights plan is designed to protect stockholders, to the extent possible, from a creeping acquisition and other tactics to gain control of us without offering all stockholders an adequate price and control premium. Under the stockholder rights plan, the acquisition of 15% or more of our outstanding common stock by any person or group (which includes for this purpose common stock referenced in derivative transactions or securities), unless approved by our Board of Directors, will trigger the right of our stockholders (other than the acquirer of 15% or more of our common stock) to acquire additional shares of our common stock, and, in certain cases, the shares of the potential acquirer, having a market value of twice the exercise price of each right. A person or group who beneficially owned 15% or more of the outstanding shares of our common stock prior to the adoption of the stockholder rights plan did not cause the rights to become exercisable upon adoption of the stockholder rights plan. However, such person or group will cause the rights to become exercisable (subject to certain limited exceptions) if it becomes the beneficial owner of additional shares of our common stock or its beneficial ownership decreases below 15% and subsequently increases to 15% or more. Because the rights may substantially dilute the stock ownership of a person or group attempting to take us over without the approval of our Board of Directors, our stockholder rights plan could make it more difficult for a third-party to acquire us (or a significant percentage of our outstanding capital stock) without first negotiating with our Board of Directors regarding that acquisition.

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

***Actions that may be taken by significant stockholders may divert the time and attention of our board of directors and management from our business operations.***

Campaigns by significant investors to effect changes at publicly traded companies have increased in recent years. Legatum Capital Limited ("Legatum"), which collectively beneficially own approximately 24% of our outstanding common stock, has sent letters to our Board of Directors suggesting, among other things, that we increase the size of our Board of Directors and add representatives of Legatum to the Board. Legatum may seek to implement this proposal by soliciting proxies directly from our stockholders in connection with our 2009 Annual Meeting. We have recently discussed with Legatum the possible nomination of mutually acceptable nominees to our Board of Directors. If a proxy contest were to be pursued by Legatum, or any other stockholder, it could result in substantial expense to us and consume significant attention of our management and Board of Directors. In addition, there can be no assurance that any stockholder will not pursue actions to effect changes in the management and strategic direction of the Company, including through the solicitation of proxies from our stockholders.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We historically have used stock options as a significant component of our employee compensation program in order to align employees' interests with the interests of our stockholders, encourage

employee retention, and provide competitive compensation packages. In 2007, our stockholders approved a new stock incentive plan which includes a limited amount of shares to be granted under the plan. The limited number of shares available for use as equity incentives to employees may make it more difficult for us to attract, retain and motivate key personnel.

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

We have made significant changes in our senior management team, including the hiring of a new President and Chief Executive Officer in the second quarter of fiscal 2008. Because of these significant changes, our management team may not be able to work together effectively to successfully develop and implement our business strategies. In addition, management will need to devote significant attention and resources to preserve and strengthen relationships with employees, customers and the investor community. If our new management team is unable to achieve these goals, our ability to grow our business and successfully meet operational challenges could be impaired.

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

Our business depends upon highly skilled technical, managerial, engineering, sales, marketing and customer support personnel. Competition for these personnel is intense. Any failure to hire, assimilate in a timely manner and retain needed qualified personnel, particularly engineering and sales personnel, could impair our growth and make it difficult to meet key objectives, such as timely and effective product introductions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- loss of customers and market share; and
- a failure to attract new customers or achieve market acceptance for our products.

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

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

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

our proprietary rights. Any potential intellectual property litigation also could force us to do one or more of the following:

- stop selling, incorporating or using our products that use the challenged intellectual property;
- obtain from the owner of the infringed intellectual property right a license to sell or use the relevant technology, which license may not be available on reasonable terms, or at all; or
- redesign those products that use any allegedly infringing technology.

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

On June 14, 2006, C2 Communications sued AT&T, Inc., Verizon Communications, Inc., Qwest, Bellsouth, Sprint Nextel Corporation, Global Crossing and Level 3 in the Eastern District of Texas, Marshall Division. C2 Communications has alleged that each of the defendants infringe U.S. Patent No. 6,243,373 entitled "Method and Apparatus for Implementing a Computer Network Internet Telephone System." We have agreed, subject to certain conditions, to assume the defense of Qwest, Global Crossing and Level 3 in this litigation to the extent the claim results from their use of products purchased from us. On December 3, 2007, the Court held a pre-trial, or Markman hearing, on the claim construction of the patent. The court has scheduled the trial date for September 2008. Court-ordered mediation was held on May 29, 2008 and July 18, 2008. On June 13, 2008, the Court issued its Memorandum Opinion and Order on the claim construction of the C2 patent. On July 3, 2008, the defendants filed motions for summary judgment asserting that the C2 patent is invalid. We believe that the defendants have substantial legal and factual defenses to the infringement claim, which we intend to pursue vigorously on behalf of the defendants for whom we have agreed to assume defense of the litigation. However, there is no assurance any of the defendants will prevail in defending this action. There also can be no assurance that we will not be required to indemnify any of the defendants from any judgment of infringement rendered against them. We may be required to devote significant time and resources in connection with assuming the defense of the claim of infringement on behalf of the defendants for whom we have agreed to assume defense of the litigation. An adverse outcome with respect to the claim and our indemnification could have a material adverse impact on our business, operating results and financial condition.

On January 24, 2008, Sprint Communications sued two of our customers, Broadvox and Nuvox, in the District of Kansas for patent infringement. The Company has agreed, subject to certain conditions, to assume the defense of this litigation on behalf of Broadvox to the extent the claims result from its use of Sonus products. There also can be no assurance that we will not be required to indemnify Broadvox or Nuvox from any judgment of infringement rendered against them.

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

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

- issue stock that would dilute our current stockholders' percentage ownership;
- reduce significantly our cash and investments;
- incur debt or assume liabilities;
- incur significant impairment charges related to the write-off of goodwill and intangible assets;
- incur significant amortization expenses related to intangible assets; or

- incur large and immediate write-offs for in-process research and development and stock-based compensation.

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

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

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

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

Under generally accepted accounting principles, we review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or intangible assets may not be recoverable include significant underperformance relative to plan or long-term projections, strategic changes in business strategy, significant negative industry or economic trends, a significant change in circumstances relative to a large customer, a significant decline in our stock price for a sustained period and a decline in our market capitalization to below net book value. In connection with the preparation of our financial statements for the second quarter of fiscal 2008, we identified several impairment indicators related to the intangible assets and goodwill allocated to Zynetix and performed an assessment of the carrying value of these assets. As a result of this assessment, we recorded impairment charges aggregating \$3.6 million. We may be required to record a significant charge to earnings in our financial statements in future periods if any additional impairment of our intangible assets or goodwill is determined, negatively impacting our results of operations.

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

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

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

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

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

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

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

*Issuer Purchases of Equity Securities*

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs</u>
April 1, 2008 to April 30, 2008	474	\$ 3.93	—	—
May 1, 2008 to May 31, 2008	813	\$ 4.46	—	—
June 1, 2008 to June 30, 2008	14,483	\$ 3.65	—	—
Total	<u>15,770</u>	<u>\$ 3.70</u>	<u>—</u>	<u>—</u>

**Item 4. Submission of Matters to a Vote of Security Holders**

The 2008 Annual Meeting of Shareholders of Sonus Networks, Inc. was held on June 20, 2008 at The Westford Regency Inn and Conference Center, 219 Littleton Road, Westford, Massachusetts 01886. Of the 271,135,236 shares outstanding as of April 24, 2008, the record date, 252,880,223 shares (93.3%)

were present or represented by proxy at the meeting. The results of the votes on each of the proposals are as follows:

1. Election of three Directors, each to hold office until the 2011 Annual Meeting of Shareholders, and until his successor is qualified.

	Number of Shares	
	For	Withheld
Hassan M. Ahmed	145,781,397	107,098,826
John P. Cunningham	144,486,931	108,393,292
Paul J. Severino	141,802,266	111,077,957

In addition to the directors listed above who were elected at the 2008 Annual Meeting of Shareholders, the terms of Edward T. Anderson, Howard E. Janzen, Richard N. Nottenburg and H. Brian Thompson continued after the meeting.

2. Ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2008.

	Number of
	Shares
For	248,957,168
Against	3,295,267
Abstained	627,788



**Item 6. Exhibits**

<u>Exhibit Number</u>	<u>Description</u>
3.1	Fourth Amended and Restated Certificate of Incorporation of Sonus Networks, Inc., as amended.
4.1(a)	Rights Agreement, dated June 26, 2008, between the Company and American Stock Transfer & Trust Company, LLC, which includes as Exhibit A thereto a form of Certificate of Designation for the Series A Junior Participating Preferred Stock, as Exhibit B thereto the Form of Rights Certificate and Exhibit C thereto a Summary of Rights to Purchase Shares of Preferred Stock.
10.1(b)	Employment Agreement between Sonus Networks, Inc. and Richard J. Nottenburg accepted on May 16, 2008.
10.2(c)	Summary of Fiscal 2008 Bonus Program.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(a)	Incorporated by reference from the Registrant's Current Report on Form 8-K (File No. 000-30229), filed with the Securities and Exchange Commission on June 27, 2008.
(b)	Incorporated by reference from the Registrant's Current Report on Form 8-K (File No. 000-30229), filed with the Securities and Exchange Commission on May 20, 2008.
(c)	Incorporated by reference from the Registrant's Current Report on Form 8-K (File No. 000-30229), filed with the Securities and Exchange Commission on June 10, 2008.

**SIGNATURES**

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

Dated: August 11, 2008

SONUS NETWORKS, INC.

By: /s/ RICHARD J. GAYNOR

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

By: /s/ WAYNE PASTORE

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Wayne Pastore  
*Vice President, Finance and Corporate Controller*  
*(Principal Accounting Officer)*

## EXHIBIT INDEX

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

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*State of Delaware*

*Office of the Secretary of State*

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED ARE TRUE AND CORRECT COPIES OF ALL DOCUMENTS FILED FROM AND INCLUDING THE RESTATED CERTIFICATE OF "SONUS NETWORKS, INC." AS RECEIVED AND FILED IN THIS OFFICE.

THE FOLLOWING DOCUMENTS HAVE BEEN CERTIFIED:

RESTATED CERTIFICATE, FILED THE THIRTIETH DAY OF MAY, A.D. 2000, AT 9 O'CLOCK A.M.

AND I DO HEREBY FURTHER CERTIFY THAT THE EFFECTIVE DATE OF THE AFORESAID RESTATED CERTIFICATE IS THE THIRTY-FIRST DAY OF MAY, A.D. 2000.

CERTIFICATE OF AMENDMENT, FILED THE THIRTIETH DAY OF MAY, A.D. 2001, AT 9 O'CLOCK A.M.

2782901 8100X  
010344486



/s/ Harriet Smith Windsor

*Harriet Smith Windsor, Secretary of State*

AUTHENTICATION: 1247584

DATE: 07-17-01

**FOURTH AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION  
OF  
SONUS NETWORKS, INC.**

Sonus Networks, Inc. (the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "General Corporation Law"), hereby certifies as follows:

**FIRST:** The name of the Corporation is Sonus Networks, Inc. The original Certificate of Incorporation of the Corporation was filed by the Corporation with the Secretary of State of Delaware on August 7, 1997. The original Certificate of Incorporation was subsequently amended and restated on September 23, 1998, on September 10, 1999 and again on March 9, 2000 (the original Certificate of Incorporation, as amended and restated, the "Original Certificate of Incorporation").

**SECOND:** This Fourth Amended and Restated Certificate of Incorporation: (i) was duly adopted in accordance with the provisions of Sections 242 and 245 of the General Corporation Law; and (ii) was approved by written consent of a majority of the stockholders of the Corporation given in accordance with the provisions of Section 228 of the General Corporation Law.

**THIRD:** The text of the Original Certificate of Incorporation of the Corporation, as heretofore amended, is hereby further restated and amended to read in its entirety as follows:

**FOURTH:** This Fourth Amended and Restated Certificate of Incorporation, in accordance with the provisions of Section 103 of the General Corporation Laws, shall be effective on May 31, 2000, at 5:00 p.m., Eastern Time.

**ARTICLE I**  
**Name**

The name of the corporation (the "Corporation") is Sonus Networks, Inc.

**ARTICLE II**  
**Registered Agent**

The address of the Corporation's registered office in the State of Delaware is 1013 Centre Road in the City of Wilmington, County of New Castle; and the name of its registered agent is Corporation Service Company.

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**ARTICLE III**

**Purpose**

The nature of the business or purposes to be conducted or promoted by the Corporation is as follows:

To engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

**ARTICLE IV**

**Capital Stock**

The total number of shares of all classes of stock which the Corporation shall have authority to issue is 305,000,000 shares, consisting solely of:

300,000,000 shares of common stock, par value \$0.001 per share ("Common Stock"); and

5,000,000 shares of preferred stock, par value \$0.01 per share ("Preferred Stock").

The following is a statement of the powers, designations, preferences, privileges, and relative rights in respect of each class of capital stock of the Corporation.

**A. COMMON STOCK.**

1. **General.** The voting, dividend and liquidation rights of the holders of Common Stock are subject to and qualified by the rights of the holders of Preferred Stock.

2. **Voting.** The holders of Common Stock are entitled to one vote for each share held at all meetings of stockholders. There shall be no cumulative voting.

3. **Dividends.** Dividends may be declared and paid on the Common Stock from funds lawfully available therefor if, as and when determined by the Board of Directors and subject to any preferential dividend rights of any then outstanding shares of Preferred Stock.

4. **Liquidation.** Upon the dissolution or liquidation of the Corporation, whether voluntary or involuntary, holders of Common Stock will be entitled to receive all assets of the Corporation available for distribution to its stockholders, subject to any preferential rights of any then outstanding shares of Preferred Stock.

**B. PREFERRED STOCK.**

Shares of Preferred Stock may be issued from time to time in one or more series, each of such series to have such powers, designations, preferences, and relative, participating, optional, or other special rights, if any, and such qualifications and restrictions, if any, of such preferences and rights, as are stated or expressed in the resolution or resolutions of the Board of Directors providing for such series of Preferred Stock. Different series of Preferred Stock shall not be

construed to constitute different classes of shares for the purposes of voting by classes unless expressly so provided in such resolution or resolutions.

Authority is hereby granted to the Board of Directors from time to time to issue the Preferred Stock in one or more series, and in connection with the creation of any such series, by resolution or resolutions to determine and fix the powers, designations, preferences, and relative, participating, optional, or other special rights, if any, and the qualifications and restrictions, if any, of such preferences and rights, including without limitation dividend rights, conversion rights, voting rights (if any), redemption privileges, and liquidation preferences, of such series of Preferred Stock (which need not be uniform among series), all to the fullest extent now or hereafter permitted by the General Corporation Law of Delaware. Without limiting the generality of the foregoing, the resolution or resolutions providing for the creation or issuance of any series of Preferred Stock may provide that such series shall be superior to, rank equally with, or be junior to the Preferred Stock of any other series, all to the fullest extent permitted by law. No resolution, vote, or consent of the holders of the capital stock of the Corporation shall be required in connection with the creation or issuance of any shares of any series of Preferred Stock authorized by and complying with the conditions of this Amended and Restated Certificate of Incorporation, the right to any such resolution, vote, or consent being expressly waived by all present and future holders of the capital stock of the Corporation.

Any resolution or resolutions adopted by the Board of Directors pursuant to the authority vested in them by this Article IV shall be set forth in a certificate of designation along with the number of shares of stock of such series as to which the resolution or resolutions shall apply and such certificate shall be executed, acknowledged, filed, recorded, and shall become effective, in accordance with §103 of the General Corporation Law of the State of Delaware. Unless otherwise provided in any such resolution or resolutions, the number of shares of stock of any such series to which such resolution or resolutions apply may be increased (but not above the total number of authorized shares of the class) or decreased (but not below the number of shares thereof then outstanding) by a certificate likewise executed, acknowledged, filed and recorded, setting forth a statement that a specified increase or decrease therein has been authorized and directed by a resolution or resolutions likewise adopted by the Board of Directors. In case the number of such shares shall be decreased, the number of shares so specified in the certificate shall resume the status which they had prior to the adoption of the first resolution or resolutions. When no shares of any such class or series are outstanding, either because none were issued or because none remain outstanding, a certificate setting forth a resolution or resolutions adopted by the Board of Directors that none of the authorized shares of such class or series are outstanding, and that none will be issued subject to the certificate of designations previously filed with respect to such class or series, may be executed, acknowledged, filed and recorded in the same manner as previously described and it shall have the effect of eliminating from this Amended and Restated Certificate of Incorporation all matters set forth in the certificate of designations with respect to such class or series of stock. If no shares of any such class or series established by a resolution or resolutions adopted by the Board of Directors have been issued, the voting powers, designations, preferences and relative, participating, optional or other rights, if any, with the qualifications, limitations or restrictions thereof, may be amended by a resolution or resolutions adopted by the Board of Directors. In the event of any such amendment, a certificate which (i) states that no shares of such class or series have been issued, (ii) sets forth the copy of the amending resolution or resolutions and (iii) if the designation of such class or series is being changed, indicates the original designation and the new designation, shall be executed,



acknowledged, filed, recorded, and shall become effective, in accordance with §103 of the General Corporation Law of the State of Delaware.

**ARTICLE V**  
**Board of Directors**

The following provisions are inserted for the management of the business and for the conduct of the affairs of the Corporation and for defining and regulating the powers of the Corporation and its directors and stockholders and are in furtherance and not in limitation of the powers conferred upon the Corporation by statute:

(a) The Board of Directors shall be divided into three classes of directors, such classes to be as nearly equal in number of directors as possible, having staggered three-year terms of office, the term of office of the directors of the first such class to expire as of the first annual meeting of the Corporation's stockholders following the closing of the Corporation's first public offering of shares of Common Stock registered pursuant to the Securities Act of 1933, as amended, those of the second class to expire as of the second annual meeting of the Corporation's stockholders following such closing, and those of the third class as of the third annual meeting of the Corporation's stockholders following such closing, such that at each annual meeting of stockholders after such closing, nominees will stand for election to succeed those directors whose terms are to expire as of such meeting. Any director serving as such pursuant to this paragraph (b) of Article V may be removed only for cause and only by the vote of the holders of 66 <sup>2</sup>/<sub>3</sub>% of the shares of the Corporation's stock entitled to vote for the election of directors.

(b) The Board of Directors shall have the power and authority: (i) to adopt, amend or repeal By-Laws of the Corporation, subject only to such limitations, if any, as may be from time to time imposed by other provisions of this Certificate, by law, or by the By-Laws; and (ii) to the full extent permitted or not prohibited by law, and without the consent of or other action by the stockholders, to authorize or create mortgage, pledges or other liens or encumbrances upon any or all of the assets, real, personal or mixed, and franchises of the Corporation, including after-acquired property, and to exercise all of the powers of the Corporation in connection therewith.

**ARTICLE VI**  
**Limitation of Liability**

No director of the Corporation shall be personally liable to the Corporation or to any of its stockholders for monetary damages for breach of fiduciary duty as a director, notwithstanding any provision of law imposing such liability; provided, however, that to the extent required from time to time by applicable law, this Article VI shall not eliminate or limit the liability of a director, to the extent such liability is provided by applicable law, (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of Title 8 of the Delaware Code, or (iv) for any transactions from which the director derived an improper personal benefit. No amendment to or repeal of this Article VI shall apply to or have any effect on the liability or alleged liability of any director for or with respect to any

acts or omissions of such director occurring prior to the effective date of such amendment or repeal.

**ARTICLE VII**  
**Indemnification**

The Corporation shall, to the fullest extent permitted by Section 145 of the General Corporation Law of Delaware, as amended from time to time, indemnify each person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was, or has agreed to become, a director or officer of the Corporation, or is or was serving, or has agreed to serve, at the request of the Corporation, as a director, officer or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise (including any employee benefit plan), or by reason of any action alleged to have been taken or omitted in such capacity, against all expenses (including attorneys' fees), judgements, fines and amounts paid in settlement actually and reasonably incurred by him or on his behalf in connection with such action, suit or proceeding and any appeal therefrom.

Indemnification may include payment by the Corporation of expenses in defending an action or proceeding in advance of the final disposition of such action or proceeding upon receipt of an undertaking by the person indemnified to repay such payment if it is ultimately determined that such person is not entitled to indemnification under this Article VII, which undertaking may be accepted without reference to the financial ability of such person to make such repayment.

The Corporation shall not indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person unless the initiation thereof was approved by the Board of Directors.

The indemnification rights provided in this Article VII (i) shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any law, agreement or vote of stockholders or disinterested directors or otherwise, and (ii) shall inure to the benefit of the heirs, executors and administrators of such persons. The Corporation may, to the extent authorized from time to time by its Board of Directors, grant indemnification rights to other employees or agents of the Corporation or other persons serving the Corporation and such rights may be equivalent to, or greater or less than, those set forth in this Article VII.

**ARTICLE VIII**  
**Compromises and Arrangements**

Whenever a compromise or arrangement is proposed between the Corporation and its creditors or any class of them and/or between the Corporation and its stockholders or any Class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of the Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for the Corporation under the provisions of §391 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for the Corporation under the provisions of §279 of Title 8 of the Delaware Code, order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Corporation, as the case may be, to be summoned in such a

manner as the said court directs. If a majority of the number representing three-fourths (3/4ths) in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of the Corporation as a consequence of such compromise or arrangement, the compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all creditors or class of creditors, and/or stockholders or class of stockholders of the Corporation, as the case may be, and also on the Corporation.

**ARTICLE IX**  
**Certain Transactions**

The Board of Directors, when considering a tender offer or merger or acquisition proposal, may take into account factors in addition to potential economic benefits to stockholders, including without limitation (i) comparison of the proposed consideration to be received by stockholders in relation to the then current market price of the Corporation's capital stock, the estimated current value of the Corporation in a freely negotiated transaction, and the estimated future value of the Corporation as an independent entity, (ii) the impact of such a transaction on the employees, suppliers, and customers of the Corporation and its effect on the communities in which the Corporation operates, and (iii) the impact of such a transaction on the unique corporate culture and atmosphere of the Corporation.

**ARTICLE X**  
**Stockholder Action**

Any action required or permitted to be taken by the stockholders of the Corporation may be taken only at a duly called annual or special meeting of the stockholders, and not by written consent in lieu of such a meeting, and special meetings of stockholders may be called only by the Chairman of the Board of Directors, the President, or a majority of the Board of Directors.

**ARTICLE XI**  
**Amendments**

The affirmative vote of the holders of at least 66 2/3% of the outstanding voting stock of the Corporation (in addition to any separate class vote that may in the future be required pursuant to the terms of any outstanding Preferred Stock) shall be required to amend or repeal the provisions of Articles IV (to the extent it relates to the authority of the Board of Directors to issue shares of Preferred Stock in one or more series, the terms of which may be determined by the Board of Directors), V, VII, IX, X, or XI of this Fourth Amended and Restated Certificate of Incorporation or to reduce the numbers of authorized shares of Common Stock or Preferred Stock.

*[The remainder of this page is intentionally left blank.]*

THIRD: That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the Corporation has caused this certificate to be signed by Stephen J. Nill, its Vice President Finance and Chief Financial Officer, this 29<sup>th</sup> day of May, 2001.

SONUS NETWORKS, INC.

BY:       /S/ Stephen J. Nill        
Stephen J. Nill  
Vice President Finance and Administration  
and Chief Financial Officer

IN WITNESS WHEREOF, the undersigned has caused this Fourth Amended and Restated Certificate of Incorporation to be duly executed on its behalf as of May 30, 2000.

SONUS NETWORKS, INC.

By: /s/ Hassan Ahmed  
Hassan Ahmed  
President

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STATE OF DELAWARE  
SECRETARY OF STATE  
DIVISION OF CORPORATIONS  
FILED 09:00 AM 05/30/2001  
010258926 - 2782901

CERTIFICATE OF AMENDMENT  
OF  
FOURTH AMENDED AND RESTATED CERTIFICATE OF INCORPORATION  
OF  
SONUS NETWORKS, INC.

Sonus Networks, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Corporation"), DOES HEREBY CERTIFY:

FIRST: That at a meeting of the Board of Directors of the Corporation, resolutions were duly adopted setting forth a proposed amendment to the Fourth Amended and Restated Certificate of Incorporation of said corporation, declaring said amendment to be advisable and directing the holders of Common Stock of said corporation to consider said amendment and to indicate their approval and adoption thereof. The resolution setting forth the proposed amendment is as follows:

RESOLVED: That the first sentence of Article IV of the Fourth Amended and Restated Certificate of Incorporation of the Corporation be, and it hereby is, amended to read as follows:

The total number of shares of capital stock which the corporation shall have authority to issue is 605,000,000, consisting solely of:

600,000,000 shares of common stock, par value \$0.001 per share ("Common Stock"); and

5,000,000 shares of preferred stock, par value \$0.01 per share ("Preferred Stock").

RESOLVED: That except as expressly amended hereby no other aspect of such Article IV shall be modified hereby.

SECOND: That thereafter, pursuant to said resolutions of its Board of Directors, the holders of record of not less than a majority of the issued and outstanding shares of Common Stock of said Corporation, representing not less than the minimum number of votes necessary to authorize and take such action, duly adopted such an amendment at the Annual Meeting of the Shareholders in accordance with Sections 211 and 222 of the General Corporation Law of the State of Delaware.

# Delaware

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*The First State*

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF DESIGNATION OF "SONUS NETWORKS, INC.", FILED IN THIS OFFICE ON THE TWENTY-SIXTH DAY OF JUNE, A.D. 2008, AT 4:50 O'CLOCK P.M.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS.

2782901 8100

080735286

You may verify this certificate online at  
[corp.delaware.gov/authver.shtml](http://corp.delaware.gov/authver.shtml)



/s/ Harriet Smith Windsor

Harriet Smith Windsor, Secretary of State

AUTHENTICATION: 66922 64

DATE: 06-26-08

CERTIFICATE OF DESIGNATION

of

SERIES A JUNIOR PARTICIPATING PREFERRED STOCK

of

SONUS NETWORKS, INC.

Pursuant to Section 151 of the General Corporation Law  
of the State of Delaware

Sonus Networks, Inc., a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), in accordance with the provisions of Section 103 thereof, DOES HEREBY CERTIFY:

That pursuant to the authority vested in the Board of Directors of the Corporation (the "Board of Directors") in accordance with the provisions of the Certificate of Incorporation of the said Corporation, the said Board of Directors on June 26, 2008 adopted the following resolution creating a series of 3,900,000 shares of Preferred Stock designated as "Series A Junior Participating Preferred Stock":

RESOLVED, that pursuant to the authority vested in the Board of Directors of this Corporation in accordance with the provisions of the Certificate of Incorporation, a series of Preferred Stock, par value \$.01 per share, of the Corporation be and hereby is created, and that the designation and number of shares thereof and the voting and other powers, preferences and relative, participating, optional or other rights of the shares of such series and the qualifications, limitations and restrictions thereof are as follows:

**Series A Junior Participating Preferred Stock**

1. *Designation and Amount.* There shall be a series of Preferred Stock that shall be designated as "Series A Junior Participating Preferred Stock," and the number of shares constituting such series shall be 3,900,000. Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, however, that no decrease shall reduce the number of shares of Series A Junior Participating Preferred Stock to less than the number of shares then issued and outstanding plus the number of shares issuable upon exercise of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Corporation.

2. *Dividends and Distribution.*

(A) Subject to the prior and superior rights of the holders of any shares of any class or series of stock of the Corporation ranking prior and superior to the shares of Series A Junior Participating Preferred Stock with respect to dividends, the holders of shares of Series A Junior Participating Preferred Stock, in preference to the holders of shares of any class or series of stock of the Corporation ranking junior to the Series A Junior Participating Preferred Stock in respect thereof, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the 30th day of March, June, September and December, in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Junior Participating Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$ 10.00 or (b) the Adjustment Number (as defined below) times the aggregate per share amount of all cash dividends, and the Adjustment Number times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock, par value \$.001 per share, of the Corporation (the "Common Stock") since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Junior Participating Preferred Stock. The "Adjustment Number" shall initially be 1,000. In the event the Corporation shall at any time after June 26, 2008 (i) declare and pay any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on the Series A Junior Participating Preferred Stock as provided in paragraph (A) above immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock).

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Junior Participating Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series A Junior Participating Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Junior Participating Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which



events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Junior Participating Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Junior Participating Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 60 days prior to the date fixed for the payment thereof.

3. *Voting Rights.* The holders of shares of Series A Junior Participating Preferred Stock shall have the following voting rights:

(A) Each share of Series A Junior Participating Preferred Stock shall entitle the holder thereof to a number of votes equal to the Adjustment Number on all matters submitted to a vote of the stockholders of the Corporation.

(B) Except as required by law, by Section 3(C) and by Section 10 hereof, holders of Series A Junior Participating Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

(C) If, at the time of any annual meeting of stockholders for the election of directors, the equivalent of six quarterly dividends (whether or not consecutive) payable on any share or shares of Series A Junior Participating Preferred Stock are in default, the number of directors constituting the Board of Directors of the Corporation shall be increased by two. In addition to voting together with the holders of Common Stock for the election of other directors of the Corporation, the holders of record of the Series A Junior Participating Preferred Stock, voting separately as a class to the exclusion of the holders of Common Stock, shall be entitled at said meeting of stockholders (and at each subsequent annual meeting of stockholders), unless all dividends in arrears on the Series A Junior Participating Preferred Stock have been paid or declared and set apart for payment prior thereto, to vote for the election of two directors of the Corporation, the holders of any Series A Junior Participating Preferred Stock being entitled to cast a number of votes per share of Series A Junior Participating Preferred Stock as is specified in paragraph (A) of this Section 3. Each such additional director shall not be a member of Class I, Class II or Class III of the Board of Directors of the Corporation, but shall serve until the next annual meeting of stockholders for the election of directors, or until his successor shall be elected and shall qualify, or until his right to hold such office terminates pursuant to the provisions of this Section 3(C). Until the default in payments of all dividends which permitted the election of said directors shall cease to exist, any director who shall have been so elected pursuant to the provisions of this Section 3(C) may be removed at any time, without cause, only by the affirmative vote of the holders of the shares of Series A Junior Participating Preferred Stock at the time entitled to cast a majority of the votes entitled to be cast for the election of any such director at a special

meeting of such holders called for that purpose, and any vacancy thereby created may be filled by the vote of such holders. If and when such default shall cease to exist, the holders of the Series A Junior Participating Preferred Stock shall be divested of the foregoing special voting rights, subject to reversion in the event of each and every subsequent like default in payments of dividends. Upon the termination of the foregoing special voting rights, the terms of office of all persons who may have been elected directors pursuant to said special voting rights shall forthwith terminate, and the number of directors constituting the Board of Directors shall be reduced by two. The voting rights granted by this Section 3(C) shall be in addition to any other voting rights granted to the holders of the Series A Junior Participating Preferred Stock in this Section 3.

4. *Certain Restrictions.*

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series A Junior Participating Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Junior Participating Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Junior Participating Preferred Stock, except dividends paid ratably on the Series A Junior Participating Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled; or

(iii) purchase or otherwise acquire for consideration any shares of Series A Junior Participating Preferred Stock, or any shares of stock ranking on a parity with the Series A Junior Participating Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of Series A Junior Participating Preferred Stock, or to such holders and holders of any such shares ranking on a parity therewith, upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

5. *Reacquired Shares.* Any shares of Series A Junior Participating Preferred Stock purchased or otherwise *acquired* by the Corporation in any manner whatsoever shall be retired promptly after the acquisition thereof. All such shares shall upon their retirement become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to any conditions and restrictions on issuance set forth herein.

6. *Liquidation, Dissolution or Winding Up.* (A) Upon any liquidation, dissolution or winding up of the Corporation, voluntary or otherwise, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock unless, prior thereto, the holders of shares of Series A Junior Participating Preferred Stock shall have received an amount per share (the "Series A Liquidation Preference") equal to the greater of (i) \$100.00 plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, or (ii) the Adjustment Number times the per share amount of all cash and other property to be distributed in respect of the Common Stock upon such liquidation, dissolution or winding up of the Corporation.

(B) In the event, however, that there are not sufficient assets available to permit payment in full of the Series A Liquidation Preference and the liquidation preferences of all other classes and series of stock of the Corporation, if any, that rank on a parity with the Series A Junior Participating Preferred Stock in respect thereof, then the assets available for such distribution shall be distributed ratably to the holders of the Series A Junior Participating Preferred Stock and the holders of such parity shares in proportion to their respective liquidation preferences.

(C) Neither the merger or consolidation of the Corporation into or with another entity nor the merger or consolidation of any other entity into or with the Corporation shall be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this Section 6.

7. *Consolidation, Merger, Etc.* In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the outstanding shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case each share of Series A Junior Participating Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share equal to the Adjustment Number times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be into which or for which each share of Common Stock is changed or exchanged.

8. *No Redemption.* Shares of Series A Junior Participating Preferred Stock shall not be subject to redemption by the Corporation.

9. *Ranking.* The Series A Junior Participating Preferred Stock shall rank junior to all other series of the Preferred Stock as to the payment of dividends and as to the distribution of assets upon liquidation, dissolution or winding up, unless the terms of any such series shall provide otherwise, and shall rank senior to the Common Stock as to such matters.

10. *Amendment.* At any time that any shares of Series A Junior Participating Preferred Stock are outstanding, the Certificate of Incorporation of the Corporation shall not be amended, by merger, consolidation or otherwise, which would materially alter or change the powers, preferences or special rights of the Series A Junior Participating Preferred Stock so as to affect them adversely without the affirmative vote of the holders of two-thirds of the outstanding shares of Series A Junior Participating Preferred Stock, voting separately as a class.

11. *Fractional Shares.* Series A Junior Participating Preferred Stock may be issued in fractions of a share that shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Junior Participating Preferred Stock.

*[Remainder of Page Intentionally Left Blank]*

IN WITNESS WHEREOF, the undersigned has executed this Certificate this 26th day of June, 2008.

SONUS NETWORKS, INC.

By: /s/ Charles Grey

Name: Charles Grey

Title: Vice President and General Counsel

Certificate of Designation Signature Page

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

I, Richard N. Nottenburg, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sonus Networks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2008

/s/ RICHARD N. NOTTENBURG

Richard N. Nottenburg  
*President and Chief Executive Officer*  
*(Principal Executive Officer)*

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QuickLinks

[EXHIBIT 31.1](#)

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

I, Richard J. Gaynor, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sonus Networks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2008

/s/ RICHARD J. GAYNOR

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

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EXHIBIT 32.1

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

In connection with the Quarterly Report on Form 10-Q of Sonus Networks, Inc. (the "Company") for the period ended June 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Richard N. Nottenburg, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 11, 2008

/s/ RICHARD N. NOTTENBURG

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Richard N. Nottenburg  
*President and Chief Executive Officer*  
*(Principal Executive Officer)*

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EXHIBIT 32.2

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

In connection with the Quarterly Report on Form 10-Q of Sonus Networks, Inc. (the "Company") for the period ended June 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Richard J. Gaynor, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 11, 2008

/s/ RICHARD J. GAYNOR

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

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[EXHIBIT 32.2](#)