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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from to

Commission File Number 001-34115

SONUS NETWORKS, INC.
(Exact name of Registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

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

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

As of July 24, 2009, there were 273,697,362 shares of the registrant's common stock, $0.001 par value, outstanding.

SONUS NETWORKS, INC.
FORM 10-Q
QUARTER ENDED JUNE 30, 2009
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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, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 214,075	$ 122,207
Marketable securities	144,035	180,786
Accounts receivable, net of allowance for doubtful accounts of $361 and $1,028 at June 30, 2009 and December 31, 2008, respectively	37,780	75,788
Inventory	25,100	22,553
Deferred income taxes	139	111
Litigation settlement escrow	9,500	—
Other current assets	18,238	14,937
Total current assets	448,867	416,382
Property and equipment, net	16,909	17,852
Intangible assets, net	417	568
Goodwill	5,034	5,025
Investments	29,301	84,965
Deferred income taxes	1,776	1,611
Other assets	21,633	9,182
	$ 523,937	$ 535,585
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 11,007	$ 9,200
Accrued expenses	17,337	28,231
Accrued litigation settlements	9,500	9,600
Current portion of deferred revenue	49,840	40,962
Current portion of long-term liabilities	1,196	1,301
Total current liabilities	88,880	89,294
Deferred revenue	32,693	37,991
Long-term liabilities	1,393	1,865
Total liabilities	122,966	129,150
Commitments and contingencies (Note 17)		
Stockholders' equity:		
Preferred stock, $0.01 par value; 5,000,000 shares authorized, none issued and outstanding	—	—
Common stock, $0.001 par value; 600,000,000 shares authorized; 275,986,272 and 275,133,894 shares issued; 273,689,362 and 272,836,984 shares outstanding at June 30, 2009 and December 31, 2008, respectively	276	275
Additional paid-in capital	1,279,948	1,272,952
Accumulated deficit	(885,722)	(873,878)
Accumulated other comprehensive income	6,736	7,353
Treasury stock, at cost; 2,296,910 common shares	(267)	(267)
Total stockholders' equity	400,971	406,435
	$ 523,937	$ 535,585

See notes to the condensed consolidated financial statements.

SONUS NETWORKS, INC.

Condensed Consolidated Statements of Operations

(in thousands, except per share data)

(unaudited)

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Revenue:				
Product	$ 36,320	$ 62,329	$ 55,723	$ 113,035
Service	25,287	25,461	46,896	48,382
Total revenue	61,607	87,790	102,619	161,417
Cost of revenue:				
Product	10,747	18,337	16,881	35,000
Service	10,568	11,305	22,231	22,395
Total cost of revenue	21,315	29,642	39,112	57,395
Gross profit	40,292	58,148	63,507	104,022
Operating expenses:				
Research and development	15,501	18,379	31,854	38,861
Sales and marketing	12,344	19,234	24,491	37,892
General and administrative	10,186	13,035	20,681	23,029
Restructuring	(7)	—	1,977	—
Total operating expenses	38,024	50,648	79,003	99,782
Income (loss) from operations	2,268	7,500	(15,496)	4,240
Interest expense	8	(32)	(71)	(53)
Interest income	1,077	3,234	2,726	7,200
Other income, net	19	6	12	385
Income (loss) from continuing operations before income taxes	3,372	10,708	(12,829)	11,772
Income tax (provision) benefit	1,011	(7,395)	985	(7,731)
Income (loss) from continuing operations	4,383	3,313	(11,844)	4,041
Loss from discontinued operations, net of tax	—	(3,349)	—	(3,745)
Net income (loss)	$ 4,383	$ (36)	$ (11,844)	$ 296
Earnings (loss) per share:				
Basic:				
Continuing operations	$ 0.02	$ 0.01	$ (0.04)	$ 0.01
Discontinued operations	—	(0.01)	—	(0.01)
	$ 0.02	$ —	$ (0.04)	$ —
Diluted:				
Continuing operations	$ 0.02	$ 0.01	$ (0.04)	$ 0.01
Discontinued operations	—	(0.01)	—	(0.01)
	$ 0.02	$ —	$ (0.04)	$ —
Shares used to compute earnings (loss) per share:				
Basic	273,543	271,150	273,320	270,870
Diluted	273,768	273,710	273,320	272,422

See notes to the condensed consolidated financial statements.

SONUS NETWORKS, INC.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Six months ended June 30, 2009	2008
Cash flows from operating activities:		
Net income (loss)	$ (11,844)	$ 296
Adjustments to reconcile net income (loss) to cash flows provided by (used in) operating activities:		
Depreciation and amortization of property and equipment	5,004	6,366
Amortization of intangible assets	153	534
Stock-based compensation	6,750	14,035
Impairment of intangible assets and goodwill	—	3,630
Loss on disposal of property and equipment	15	—
Deferred income taxes	(208)	7,390
Changes in operating assets and liabilities:		
Accounts receivable	37,714	6,112
Inventory	(5,204)	(2,428)
Insurance receivable—litigation settlement	—	15,328
Other operating assets	(13,472)	2,806
Accounts payable	1,204	(6,312)
Accrued expenses	(11,275)	(15,499)
Accrued litigation settlements	(100)	(40,000)
Deferred revenue	3,645	(5,473)
Net cash provided by (used in) operating activities	12,382	(13,215)
Cash flows from investing activities:		
Purchases of property and equipment	(3,352)	(4,360)
Business acquisition, net of cash acquired	—	(4,996)
Purchases of marketable securities	(61,926)	(169,837)
Sale/maturities of marketable securities	153,738	189,912
Decrease (increase) in litigation settlement escrow	(9,500)	25,000
Net cash provided by investing activities	78,960	35,719
Cash flows from financing activities:		
Sale of common stock in connection with employee stock purchase plan	529	2,213
Proceeds from exercise of stock options	1	413
Payment of tax withholding obligations related to net share settlements of restricted stock awards	(287)	(95)
Principal payments of capital lease obligations	(124)	(106)
Net cash provided by financing activities	119	2,425
Effect of exchange rate changes on cash and cash equivalents	407	(132)
Net increase in cash and cash equivalents	91,868	24,797
Cash and cash equivalents, beginning of year	122,207	118,933
Cash and cash equivalents, end of period	$ 214,075	$ 143,730
Supplemental disclosure of cash flow information:		
Interest paid	$ 71	$ 53
Income taxes paid	$ 411	$ 755
Income tax refunds received	$ 545	$ —
Supplemental disclosure of non-cash investing activities:		
Capital expenditures incurred, but not yet paid	$ 596	$ 787
Property and equipment acquired under capital lease	$ 151	$ 1,083

See notes to the condensed consolidated financial statements.

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, 2008.

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 considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. Subsequent events have been evaluated through July 30, 2009, the date of issuance of these financial statements.

In the third quarter of 2008, the Company committed to a plan to sell its Zynetix Limited ("Zynetix") subsidiary, which the Company had acquired on April 13, 2007. The Company completed the sale of Zynetix on November 26, 2008. The results of operations of Zynetix have been classified within discontinued operations for the three and six months ended June 30, 2008.

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.

Immaterial Restatement

During the second quarter of 2009, the Company identified an error in the calculation of stock-based compensation expense for prior periods. The Company's third party equity accounting software calculated stock-based compensation expense after consideration of the impact of estimated forfeitures,

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(1) BASIS OF PRESENTATION (Continued)

but did not result in the amount of stock-based compensation cost recognized at any date at least equal to the portion of the grant-date value of the award that is vested at that date. Because the Company's stock option awards generally vest on a monthly basis after the first anniversary date of the award, the Company under-recognized stock-based compensation expense in certain periods. This error changes the timing of stock-based compensation expense recognition, but does not change the total stock-based compensation expense. As stock-based compensation expense is a non cash item, this error did not impact net cash provided by (used in) operations in any period. This error resulted in the understatement of stock-based compensation expense, with corresponding understatement of additional paid-in capital, in the amounts of $2.5 million and $0.7 million ($0.6 million after tax) for the years ended December 31, 2008 and 2007, respectively. The stock-based compensation related to deductible awards would also impact the tax provision prior to recognition of a valuation allowance on deferred tax assets in the fourth quarter of 2008.

The Company considered the guidance in Statement of Financial Accounting Standards ("SFAS") No. 154, *Accounting Changes and Error Corrections* ("SFAS 154), SEC Staff Accounting Bulletin No. 99, *Materiality* ("SAB 99") and SEC Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"), in evaluating whether a restatement of previously issued financial statements is required as a result of an error contained in such financial statements. SFAS 154 requires that corrections of errors be reported by restatement of prior periods if the error is material. In accordance with SAB 99 and SAB 108, the Company evaluated the materiality of the error from qualitative and quantitative perspectives. The Company believes the correction of this error is not material to its previously issued historical consolidated financial statements; therefore, the Company plans to restate its 2007 and 2008 consolidated financial statements when issuing its 2009 consolidated financial statements in Form 10-K. The Company has restated the accompanying Condensed Consolidated Balance Sheet as of December 31, 2008, the Condensed Consolidated Statements of Operations for the three and six month periods ended June 30, 2008 and the Condensed Consolidated Statement of Cash Flows for the six month period ended June 30, 2008, all appearing herein, from amounts previously reported.

The effects of this restatement on the unaudited Condensed Consolidated Balance Sheet as of December 31, 2008 are as follows (in thousands):

	As previously reported	Adjustment	As restated
Stockholders' equity:			
Preferred stock	$ —	$ —	$ —
Common stock	275	—	275
Additional paid-in capital	1,269,790	3,162	1,272,952
Accumulated deficit	(870,716)	(3,162)	(873,878)
Accumulated other comprehensive income	7,353	—	7,353
Treasury stock	(267)	—	(267)
Total stockholders' equity	$ 406,435	$ —	$ 406,435

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(1) BASIS OF PRESENTATION (Continued)

The effects of this restatement on the unaudited Condensed Consolidated Statements of Operations for the three month periods ended December 31, 2008, September 30, 2008, June 30, 2008 and March 31, 2008 are as follows (in thousands, except per share data):

	Three months ended December 31, 2008			Three months ended September 30, 2008		
	As previously reported*	Adjustment	As restated	As previously reported*	Adjustment	As restated
Revenue:						
Product	$ 53,642	$ —	$ 53,642	$ 36,710	$ —	$ 36,710
Service	35,902	—	35,902	25,474	—	25,474
Total revenue	89,544	—	89,544	62,184	—	62,184
Cost of revenue:						
Product	27,605	26	27,631	11,600	43	11,643
Service	22,023	78	22,101	11,396	128	11,524
Total cost of revenue	49,628	104	49,732	22,996	171	23,167
Gross profit	39,916	(104)	39,812	39,188	(171)	39,017
Operating expenses:						
Research and development	15,780	217	15,997	17,885	355	18,240
Sales and marketing	18,737	215	18,952	17,169	351	17,520
General and administrative	17,309	76	17,385	21,507	124	21,631
Litigation settlements	—	—	—	19,100	—	19,100
Impairment of intangible assets	2,727	—	2,727	—	—	—
Restructuring	702	—	702	—	—	—
Total operating expenses	55,255	508	55,763	75,661	830	76,491
Loss from operations	(15,339)	(612)	(15,951)	(36,473)	(1,001)	(37,474)
Interest expense	(34)	—	(34)	(204)	—	(204)
Interest income	2,546	—	2,546	2,897	—	2,897
Other income (expense), net	(29)	—	(29)	2	—	2
Loss from continuing operations before income taxes	(12,856)	(612)	(13,468)	(33,778)	(1,001)	(34,779)
Income tax (provision) benefit	(86,126)	86	(86,040)	14,759	(663)	14,096
Loss from continuing operations	(98,982)	(526)	(99,508)	(19,019)	(1,664)	(20,683)
Loss from discontinued operations, net of tax	(183)	—	(183)	(563)	—	(563)
Loss from disposal of discontinued operations, net of tax	(741)	—	(741)	—	—	—
Net loss	$ (99,906)	$ (526)	$ (100,432)	$ (19,582)	$ (1,664)	$ (21,246)
Loss per share:						
Basic:						
Continuing operations	$ (0.37)	$ —	$ (0.37)	$ (0.07)	$ (0.01)	$ (0.08)
Discontinued operations	—	—	—	—	—	—
	$ (0.37)	$ —	$ (0.37)	$ (0.07)	$ (0.01)	$ (0.08)
Diluted:						
Continuing operations	$ (0.37)	$ —	$ (0.37)	$ (0.07)	$ (0.01)	$ (0.08)
Discontinued operations	—	—	—	—	—	—
	$ (0.37)	$ —	$ (0.37)	$ (0.07)	$ (0.01)	$ (0.08)

* As adjusted to reflect the classification of the results of operations of Zynetix within discontinued operations, as discussed in Note 5.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(1) BASIS OF PRESENTATION (Continued)

	Three months ended June 30, 2008			Three months ended March 31, 2008		
	As previously reported*	Adjustment	As restated	As previously reported	Adjustment	As restated
Revenue:						
Product	$ 62,329	$ —	$ 62,329	$ 50,706	$ —	$ 50,706
Service	25,461	—	25,461	22,921	—	22,921
Total revenue	87,790	—	87,790	73,627	—	73,627
Cost of revenue:						
Product	18,319	18	18,337	16,644	19	16,663
Service	11,251	54	11,305	11,034	56	11,090
Total cost of revenue	29,570	72	29,642	27,678	75	27,753
Gross profit	58,220	(72)	58,148	45,949	(75)	45,874
Operating expenses:						
Research and development	18,231	148	18,379	20,327	155	20,482
Sales and marketing	19,088	146	19,234	18,505	153	18,658
General and administrative	12,983	52	13,035	9,940	54	9,994
Total operating expenses	50,302	346	50,648	48,772	362	49,134
Income (loss) from operations	7,918	(418)	7,500	(2,823)	(437)	(3,260)
Interest expense	(32)	—	(32)	(21)	—	(21)
Interest income	3,234	—	3,234	3,966	—	3,966
Other income, net	6	—	6	379	—	379
Income from continuing operations before income taxes	11,126	(418)	10,708	1,501	(437)	1,064
Income tax (provision) benefit	(7,651)	256	(7,395)	(539)	203	(336)
Income from continuing operations	3,475	(162)	3,313	962	(234)	728
Loss from discontinued operations, net of tax	(3,349)	—	(3,349)	(396)	—	(396)
Net income (loss)	$ 126	$ (162)	$ (36)	$ 566	$ (234)	$ 332
Earnings (loss) per share:						
Basic:						
Continuing operations	$ 0.01	$ —	$ 0.01	$ —	$ —	$ —
Discontinued operations	(0.01)	—	(0.01)	—	—	—
	$ —	$ —	$ —	$ —	$ —	$ —
Diluted:						
Continuing operations	$ 0.01	$ —	$ 0.01	$ —	$ —	$ —
Discontinued operations	(0.01)	—	(0.01)	—	—	—
	$ —	$ —	$ —	$ —	$ —	$ —

* As adjusted to reflect the classification of the results of operations of Zynetix within discontinued operations, as discussed in Note 5.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(1) BASIS OF PRESENTATION (Continued)

This error resulted in changes to net income (loss), stock-based compensation and deferred income taxes within cash flows from operating activities; however, this error did not result in any changes to net cash flows from operating, investing or financing activities.

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 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.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, which include cash equivalents, marketable securities, investments, accounts receivable, accounts payable and long-term liabilities approximate their fair values.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162* ("SFAS 168"). The FASB Accounting Standards Codification (the "Codification") is intended to be the source of authoritative U.S. GAAP and reporting standards as issued by the FASB. Its primary purpose is to provide clarity and use of existing standards by grouping authoritative literature under common topics. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Codification does not change or alter existing GAAP and there is no expected impact on the Company's consolidated financial position or results of operations.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(1) BASIS OF PRESENTATION (Continued)

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* ("SFAS 165"), which defines the subsequent events or transactions period, circumstances under which such events or transactions should be recognized, and disclosures regarding subsequent events or transactions. SFAS 165 is effective for interim or annual periods ending after June 15, 2009. The Company has adopted the provisions of SFAS 165 as of June 30, 2009. Although the adoption of SFAS 165 did not materially impact its financial condition, results of operations or cash flow, the Company is now required to provide additional disclosures, which are incorporated in Note 1.

In April 2009, the FASB issued FASB Staff Position ("FSP") FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* ("FSP 115-2 and 124-2"), which addresses the determination as to when an investment is considered impaired, whether that impairment is other-than-temporary, and the measurement of an impairment loss. FSP 115-1 and 124-1 also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. FSP 115-1 and 124-1 was effective in the Company's quarter ended June 30, 2009. In accordance with FSP 115-1 and 124-1, the Company reviewed its unrealized loss positions for the individual securities within its investment portfolio, and determined that there were no securities with declines attributable to credit loss. In addition, the Company does not intend to sell these securities; accordingly, the Company does not believe these declines are other-than-temporary. Based on its assessment of its investment portfolio, the Company recorded all changes in fair value as compared to amortized cost to Accumulated other comprehensive income within Stockholders' equity in the Condensed Consolidated Balance Sheet as of June 30, 2009.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* ("FSP 157-4"), which provides additional guidance for estimated fair value in accordance with SFAS No. 157, *Fair Value Measurements*, when the volume and level of activity for the asset or liability have significantly decreased. FSP 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP 157-4 was effective for the Company in the quarter ended June 30, 2009, and does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, FSP 157-4 requires comparative disclosures only for such periods. There was no material impact from the adoption of this standard.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(2) REVENUE RECOGNITION

Sonus' products are primarily marketed based on the software elements contained therein. In addition, hardware sold 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. The ordering patterns and sales lead times associated with customer orders may vary significantly from period to period.

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

Sonus records deferred revenue for products delivered or services performed for which collection of the amount billed is either probable or has been collected but other revenue recognition criteria have not been met. Deferred revenue also includes 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 within 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. Such costs are classified as current assets if the deferred revenue is initially classified as current and noncurrent assets if the related deferred revenue is initially classified as noncurrent.

(2) REVENUE RECOGNITION (Continued)

Sonus sells the majority of its products directly to its service provider customers. For products sold to resellers and distributors, Sonus 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, or any other form of concession.

Beginning in the fourth quarter of fiscal 2008, the Company did not have sufficient evidence of VSOE on maintenance services for one of its largest customers. Therefore, all revenue related to multiple element arrangements for this customer is recognized ratably over the arrangement's remaining maintenance period through the end of 2010. Revenue recognition on multiple element arrangements with this customer will begin when the only undelivered element of the arrangement (that does not have VSOE) is maintenance. At June 30, 2009 and December 31, 2008, Other assets included $3.2 million and $0.4 million, respectively, of deferred product and service costs related to arrangements with this customer in which both the revenue and costs are being recognized ratably.

The Company excludes any taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction (i.e., sales, use, value added) from its revenue and costs.

(3) EARNINGS (LOSS) PER SHARE

Basic earnings (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.

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

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Weighted average shares outstanding—basic	273,543	271,150	273,320	270,870
Potential dilutive common shares	225	2,560	—	1,552
Weighted average shares outstanding—diluted	273,768	273,710	273,320	272,422

Options to purchase common stock aggregating approximately 34.3 million shares and 36.0 million shares have not been included in the computation of diluted earnings per share for the three months ended June 30, 2009 and 2008, respectively, because the options' exercise prices were greater than the average market price for the common stock and their effect would have been antidilutive. Options to purchase common stock and unvested shares of restricted stock aggregating approximately 35.8 million shares have not been included in the computation of diluted loss per share for the six months ended June 30, 2009 because their effect would have been antidilutive. Options to purchase common stock aggregating approximately 37.3 million shares have not been included in the computation of diluted net earnings per share for the six months ended June 30, 2008 because the options' exercise prices were greater than the average market price for the common stock and their effect would have been antidilutive.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(4) COMPREHENSIVE INCOME (LOSS)

The Company's comprehensive income (loss) for the three and six months ended June 30, 2009 and 2008 is as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Net income (loss)	$ 4,383	$ (36)	$ (11,844)	$296
Other comprehensive income (loss):				
Foreign currency translation adjustments	245	(371)	(11)	241
Unrealized loss on transfer of held-to-maturity marketable debt securities to available-for-sale, net of tax	—	(33)	—	(33)
Unrealized gain (loss) on marketable debt and equity securities classified as available-for-sale, net of tax	190	321	(606)	299
Comprehensive income (loss)	$ 4,818	$ (119)	$ (12,461)	$803

(5) DISCONTINUED OPERATIONS

In the third quarter of 2008, the Company committed to a plan to sell its Zynetix subsidiary. The Company completed the sale of Zynetix on November 26, 2008. The results of operations of Zynetix have been classified within discontinued operations for the three and six months ended June 30, 2008, and include the following (in thousands):

	Three months ended June 30, 2008	Six months ended June 30, 2008
Revenue	$ 101	$ 497
Loss before income taxes	$ (3,978)	$ (4,460)
Income tax benefit	629	715
Loss from discontinued operations, net of tax	$ (3,349)	$ (3,745)

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(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-backed, municipal and corporate obligations, which management believes to be high quality credit instruments.

At June 30, 2009 and December 31, 2008, the amortized cost, gross unrealized gains and losses and fair value of the Company's marketable debt and equity securities and investments were comprised of the following (in thousands):

	June 30, 2009			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Cash equivalents	$190,614	$ —	$ —	$190,614
Marketable securities				
Municipal obligations	$ 1,455	$ 7	$ —	$ 1,462
U.S. government agency notes	55,413	181	—	55,594
Corporate debt securities	35,693	329	(17)	36,005
Commercial paper	50,924	51	(1)	50,974
	$143,485	$ 568	$ (18)	$144,035
Investments				
U.S. government agency notes	$ 21,065	$ 202	$ —	$ 21,267
Corporate debt securities	7,889	145	—	8,034
	$ 28,954	$ 347	$ —	$ 29,301

	December 31, 2008			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Cash equivalents	$104,953	$ 2	$ —	$104,955
Marketable securities				
Equity securities	$ 45	$ —	$ —	$ 45
Municipal obligations	1,455	—	(9)	1,446
U.S. government agency notes	85,202	649	—	85,851
Corporate debt securities	24,293	163	(40)	24,416
Commercial paper	68,834	194	—	69,028
	$179,829	$ 1,006	$ (49)	$180,786
Investments				
U.S. government agency notes	$ 54,775	$ 585	$ —	$ 55,360
Corporate debt securities	29,647	125	(167)	29,605
	$ 84,422	$ 710	$ (167)	$ 84,965

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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

The following table shows the fair value of the Company's financial assets that are measured at fair value at June 30, 2009 and December 31, 2008, comprised of the Company's available-for-sale debt and equity securities, and are reported under the captions Cash and cash equivalents, Marketable securities and Investments in the condensed consolidated balance sheets (in thousands):

		Fair value measurements at June 30, 2009 using:		
	Total carrying value at June 30, 2009	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents	$ 190,614	$ 190,614	$ —	$ —
Marketable securities				
Municipal obligations	$ 1,462	$ —	$ 1,462	—
U.S. government agency notes	55,594	—	55,594	—
Corporate debt securities	36,005	36,005	—	—
Commercial paper	50,974	—	50,974	—
	$ 144,035	$ 36,005	$ 108,030	$ —
Investments				
U.S. government agency notes	$ 21,267	$ —	$ 21,267	$ —
Corporate debt securities	8,034	8,034	—	—
	$ 29,301	$ 8,034	$ 21,267	$ —

		Fair value measurements at December 31, 2008 using:		
	Total carrying value at December 31, 2008	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents	$ 104,955	$ 90,965	$ 13,990	$ —
Marketable securities				
Equity securities	$ 45	$ 45	$ —	$ —
Municipal obligations	1,446	—	1,446	—
U.S. government agency notes	85,851	—	85,851	—
Corporate debt securities	24,416	24,416	—	—
Commercial paper	69,028	—	69,028	—
	$ 180,786	$ 24,461	$ 156,325	$ —
Investments				
U.S. government agency notes	$ 55,360	$ —	$ 55,360	$ —
Corporate debt securities	29,605	29,605	—	—
	$ 84,965	$ 29,605	$ 55,360	$ —

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(7) INVENTORY

Inventory consists of the following (in thousands):

	June 30, 2009	December 31, 2008
On-hand final assemblies and finished goods inventory	$ 18,858	$ 13,100
Deferred product costs	21,445	18,617
Evaluation inventory	4,955	5,683
Inventory, gross	45,258	37,400
Evaluation reserve	(4,955)	(5,683)
Excess and obsolescence reserve	(2,261)	(2,877)
Inventory, net	38,042	28,840
Less current portion	(25,100)	(22,553)
Long-term portion (included in Other assets)	$ 12,942	$ 6,287

(8) INTANGIBLE ASSETS AND GOODWILL

The Company's intangible assets at June 30, 2009 and December 31, 2008 consist of the following (in thousands):

June 30, 2009	Useful life	Cost	Accumulated amortization	Net carrying value
Intellectual property	5 years	$ 999	$ 582	$ 417
Order backlog	1 year	261	261	—
		$ 1,260	$ 843	$ 417

December 31, 2008	Useful life	Cost	Accumulated amortization	Net carrying value
Intellectual property	5 years	$ 999	$ 504	$ 495
Order backlog	1 year	247	174	73
		$ 1,246	$ 678	$ 568

The Company amortizes its intangible assets over the estimated useful lives of the respective assets, which have a weighted average useful life of 4.2 years. Amortization expense related to intangible assets was approximately $57,000 and $153,000, respectively, in the three and six months ended June 30, 2009. Amortization expense related to intangible assets was approximately $394,000 and $534,000, respectively, in the three and six months ended June 30, 2008.

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, 2009 is as follows (in thousands):

Remainder of 2009	$ 76
2010	152
2011	152
2012	37
	$417

Goodwill is recorded when the consideration for an acquisition exceeds the fair value of net tangible and identifiable intangible assets acquired. The change in the carrying amount of goodwill during the six months ended June 30, 2009 is as follows (in thousands):

Balance at January 1, 2009	$5,025
Foreign currency translation adjustment	9
Balance at June 30, 2009	$5,034

(9) ACCRUED EXPENSES

Accrued expenses consist of the following (in thousands):

	June 30, 2009	December 31, 2008
Employee compensation and related costs	$ 9,647	$ 13,190
Employee stock purchase plan	765	1,229
Professional fees	2,099	2,422
Royalties	516	1,809
Income taxes payable	814	1,563
Sales taxes payable	1,109	2,715
Other taxes	103	902
Restructuring	8	567
Other	2,276	3,834
	$17,337	$ 28,231

(10) RESTRUCTURING ACCRUAL

In the three months ended March 31, 2009, the Company recorded restructuring expenses aggregating $2.0 million related to two headcount reduction restructuring initiatives implemented as part of the Company's efforts to right-size the business to align with market opportunities while managing costs to position Sonus for profitable growth. The Company recorded $0.9 million of severance and related expenses for its January 9, 2009 restructuring initiative, which reduced the Company's workforce by approximately 40 people, or 4% of the then-current employees worldwide, and $1.1 million of severance and related expenses for its March 9, 2009 restructuring initiative, which

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(10) RESTRUCTURING ACCRUAL (Continued)

further reduced the Company's workforce by approximately 60 people, or 6% of the then-current employees worldwide.

In the fourth quarter of fiscal 2008, the Company recorded $0.7 million of restructuring expense for a headcount reduction initiative which reduced the Company's worldwide workforce by approximately 50 employees, or 5% of the then-current workforce.

The Company expects the payments related to these initiatives to be completed in the third quarter of fiscal 2009.

The activity related to these initiatives during the six months ended June 30, 2009 is as follows (in thousands):

	Balance January 1, 2009	New initiatives charged to expense	Charges (reversals) for changes in estimate	Cash payments	Foreign exchange	Balance June 30, 2009
Severance and related costs	$ 567	$ 2,014	$ (37)	$ (2,544)	$ 8	$ 8

(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 equity awards, including stock options and restricted stock, stock appreciation rights and restricted stock units 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 condensed consolidated statements of operations include stock-based compensation for the three and six months ended June 30, 2009 and 2008 as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Product cost of revenue	$ 115	$ 183	$ 231	$ 388
Service cost of revenue	387	508	852	1,712
Research and development	1,102	1,517	1,869	5,335
Sales and marketing	1,490	1,152	2,534	3,181
General and administrative	616	1,986	1,264	3,332
	$ 3,710	$ 5,346	$6,750	$13,948

The Company included $0.1 million and $0.2 million of stock-based compensation in inventory at June 30, 2009 and December 31, 2008, respectively.

At June 30, 2009, there was $33.5 million, net of expected forfeitures, of unrecognized stock-based compensation expense related to unvested stock option and restricted stock awards, which is expected to be recognized over a weighted average period of approximately 2.5 years.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(11) STOCK-BASED COMPENSATION (Continued)

Valuation Assumptions

The grant-date fair values of options to purchase common stock granted in the three and six months ended June 30, 2009 and 2008, excluding the options granted to the Company's President and Chief Executive Officer ("Dr. Nottenburg"), were estimated using the Black-Scholes valuation model with the following assumptions:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Risk-free interest rate	2.23%	3.12%	1.76%–2.23%	2.75%–3.12%
Expected dividend yield	—	—	—	—
Weighted average volatility	65.11%	71.34%	64.45%	71.19%
Expected life (years)	4.5	4.5	4.5	4.5

The grant date fair values of the options to purchase the Company's common stock granted to Dr. Nottenburg were estimated using the Black-Scholes valuation model with the following assumptions:

	June 16, 2008 Award	January 15, 2009 Award
Risk-free interest rate	3.84%	2.0%
Expected dividend yield	—	—
Expected volatility	77.25%	70.24%
Expected life (years)	6.0	6.0

Based on the above assumptions, the weighted average fair values of stock options granted during the three and six months ended June 30, 2009 were $1.01 and $0.86 per share, respectively. The weighted average fair values of stock options granted during the three and six months ended June 30, 2008 were $2.57 and $2.43 per share, respectively.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(11) STOCK-BASED COMPENSATION (Continued)

Stock Option, Restricted Stock and Performance Stock Award Activity

The activity related to the Company's outstanding stock options during the six months ended June 30, 2009 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2009	36,875,380	$ 5.19		
Granted	1,084,000	$ 1.50		
Exercised	(11,687)	$ 0.17		
Forfeited	(1,038,034)	$ 5.29		
Expired	(4,188,657)	$ 5.28		
Outstanding at June 30, 2009	32,721,002	$ 5.05	5.06	$ 453
Vested or expected to vest at June 30, 2009	31,933,721	$ 5.06	4.97	$ 435
Exercisable at June 30, 2009	25,548,779	$ 5.17	4.09	$ 193

The total intrinsic value of stock options exercised during the three and six months ended June 30, 2009 was approximately $800 and $18,000, respectively. The total intrinsic value of stock options exercised during the three and six months ended June 30, 2008 was approximately $50,000 and $139,000, respectively.

The activity related to the Company's unvested restricted stock awards for the six months ended June 30, 2009 is as follows:

	Shares	Weighted Average Grant-Date Fair Value
Unvested balance at January 1, 2009	3,539,161	$ 4.40
Granted*	210,000	$ 1.95
Vested	(514,492)	$ 5.00
Forfeited	(187,276)	$ 5.45
Unvested balance at June 30, 2009	3,047,393	$ 4.00

* Excludes 500,000 shares issued to Dr. Nottenburg on January 15, 2009, which were included in 2008 activity, as this grant met the criteria for an award on June 16, 2008.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(11) STOCK-BASED COMPENSATION (Continued)

The activity related to the Company's performance stock awards for the six months ended June 30, 2009 is as follows:

	Shares		Weighted Average Grant-Date Fair Value
Unvested balance at January 1, 2009	500,000	$	4.35
Granted	—	$	—
Vested	—	$	—
Forfeited	—	$	—
Unvested balance at June 30, 2009	500,000	$	4.35

The Company did not record stock-based compensation expense in either the three or six months ended June 30, 2009 related to performance-based stock awards, as the Company does not currently believe it is probable that the performance conditions will be achieved.

(12) 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, 2009 and 2008:

	Three months ended June 30,		Six months ended June 30,	
Customer	2009	2008	2009	2008
A	14%	*	*	*
B	*	40%	*	38%
C	*	12%	*	*

* Represents less than 10% of revenue.

At June 30, 2009, there were no customers that accounted for at least 10% of the Company's accounts receivable balance. At December 31, 2008, one customer accounted for at least 10% of the Company's accounts receivable balance, representing 11% of total accounts receivable. 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.

(13) INCOME TAXES

The provision for income taxes reflects the Company's estimate of the effective rate expected to be applicable for the full fiscal year, adjusted for any discrete events, which are recorded in the period that they occur. This estimate is reevaluated each quarter based on the Company's estimated tax expense for the full fiscal year.

During the fourth quarter of fiscal 2008, the Company concluded that there was insufficient positive evidence to overcome the more objective negative evidence related to its cumulative losses and

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(13) INCOME TAXES (Continued)

other factors. Accordingly, the Company recorded an increase to its valuation allowance on substantially all of its domestic net deferred tax assets. The estimated effective rate for the year ended December 31, 2009 does not include any benefit for the Company's projected domestic losses as the Company has continued to conclude that a valuation allowance is appropriate.

For the six months ended June 30, 2009, the Company realized a discrete benefit related to the Company's United Kingdom operations totaling $1.1 million, as the result of a settlement with the taxing authorities. The Company's effective tax rates, including discrete items, were 7.7% and 65.7% for the six months ended June 30, 2009 and 2008, respectively. The income tax expense of $7.7 million in the six months ended June 30, 2008 primarily reflects a current expense for federal, state and foreign taxes and differed from the statutory federal and state rates due to losses in certain foreign jurisdictions for which the Company was unable to recognize a tax benefit, and the impact of permanent nondeductible items, such as stock-based compensation expense.

(14) GEOGRAPHIC INFORMATION

The Company's classification of revenue by geographic area is determined by the location where the product is shipped to or where the services are performed. The following table summarizes revenue by geographic area as a percentage of total revenue:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
United States	78%	80%	75%	82%
Europe, Middle East and Africa	14	5	15	7
Japan	4	14	5	9
Other Asia Pacific	1	*	1	*
Other	3	1	4	2
	100%	100%	100%	100%

* Represents less than 1% of revenue.

(15) LITIGATION SETTLEMENTS

Sprint Patent Litigation

On January 24, 2008, Sprint Communications sued two of the Company's customers, Broadvox and Nuvox, for patent infringement in two separate suits in the District of Kansas. Pursuant to the indemnification obligation in the Company's agreement with Broadvox, Broadvox requested and the Company 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. Pursuant to a settlement that was reached, the Company paid a nominal amount of money and Sprint dismissed the suit without prejudice.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(15) LITIGATION SETTLEMENTS (Continued)

2002 Securities Litigation

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 an amended Consolidated Complaint alleging that Sonus made false and misleading statements about its products and business previously filed against the defendants and dismissed on October 5, 2005. The Court appointed the Public Employees' Retirement System of Mississippi as lead plaintiff. The lead plaintiff filed an Amended Consolidated Class Action Complaint on March 5, 2007 (the "2002 Securities Litigation"). On April 19, 2007, the defendants filed a motion to dismiss the 2002 Securities Litigation. On September 23, 2008 Sonus agreed to settle the litigation and, on October 3, 2008, entered into a Memorandum of Understanding with the plaintiff setting forth the terms of the settlement. Pursuant to the settlement, subject to confirmatory discovery and final court approval, the Company agreed to pay $9.5 million to the shareholder class in the case, as well as $0.1 million toward the cost of the class notice process. In addition, the Company expects to incur $0.4 million in incremental legal fees in connection with the confirmatory discovery and settlement approval process. On February 4, 2009, the Court issued an order in which it certified a settlement class, preliminarily approved the settlement, and ordered that notice be sent to the settlement class. The hearing on final court approval of the settlement was held on June 16, 2009, and the Court entered its Orders finally approving the settlement and the request of plaintiffs' counsel for attorneys' fees on June 23, 2009. There were no class member objections to the settlement. At both June 30, 2009 and December 31, 2008, the Company had accruals aggregating $10.0 million related to this settlement, of which $9.5 million is reported as Accrued litigation settlements and $0.4 million is included as a component of Accrued expenses in the Condensed Consolidated Balance Sheets. On February 17, 2009, the Company placed $9.5 million into escrow related to this settlement. This amount is reported as Litigation settlement escrow in the Condensed Consolidated Balance Sheet at June 30, 2009. On July 16, 2009, the escrow amount was released to the plaintiff. The Company does not have any directors and officers insurance available for this claim.

(16) RELATED PARTIES

The Company's President and Chief Executive Officer serves on the Board of Directors of Comverse Technology ("Comverse"), a worldwide provider of software and systems. Comverse has several majority-owned subsidiaries, including Ulticom, Inc. and Verint Systems. All three companies are vendors of the Company. The Company had well-established and ongoing business relationships with these vendors prior to the appointment of Dr. Nottenburg as the Company's President and Chief Executive Officer effective June 13, 2008.

Management believes the contract terms and arrangements with these vendors are customary and in accordance with the Company's normal business practices. Costs incurred for purchases from these companies, in the aggregate, were $1.6 million and $3.8 million for the three and six months ended June 30, 2009, respectively. At June 30, 2009 and December 31, 2008, the Company had aggregate outstanding accounts payable balances of $0.2 million and $0.5 million, respectively, to these companies.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(17) COMMITMENTS AND CONTINGENCIES

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 the Company, two of its officers and the lead underwriters alleging violations of the federal securities laws in connection with the Company's initial public offering ("IPO") and seeking unspecified monetary damages. The purchaser seeks to represent a class of persons who purchased the Company's common stock between the IPO on May 24, 2000 and December 6, 2000. An amended complaint was filed in April 2002. The amended complaint alleges that the Company's registration statement contained false or misleading information or omitted to state 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 the Company 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 the Company, have been transferred to a single federal judge for purposes of coordinated case management. On July 15, 2002, the Company, 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 the Company's 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 the Company, 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. On November 13, 2007, the issuer defendants in certain designated "focus cases" filed a motion to dismiss the second consolidated amended class action complaints that were filed in those cases. On March 26, 2008, the District Court issued an Opinion and Order denying, in large part, the motions to dismiss the amended complaints in the "focus cases." On April 2, 2009, the plaintiffs filed a motion for preliminary approval of a new proposed settlement between plaintiffs, the underwriter defendants, the issuer defendants and the insurers for the issuer defendants. On June 10, 2009, the court issued an opinion preliminarily approving the proposed settlement, and scheduling a settlement fairness hearing for September 10, 2009. The Company is unable to determine the ultimate outcome or potential range of loss, if any.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(17) COMMITMENTS AND CONTINGENCIES (Continued)

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 the Company's 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. Between October 2, 2007 and October 12, 2007, the plaintiff also filed fifty-four separate lawsuits naming fifty-four additional issuers as nominal defendants and ten underwriters as defendants. These 54 cases, along with the complaint filed by the plaintiff with respect to Sonus' IPO, were reassigned to the Honorable James L. Robart, as related cases. On July 25, 2008, the underwriter and 29 of the issuer defendants (including Sonus) filed motions to dismiss the case. On September 8, 2008, the plaintiff filed oppositions to the motions, and the issuer and underwriters defendants filed replies in support of their motions to dismiss on October 23, 2008. Oral argument on all motions to dismiss was held on January 16, 2009, at which time the Judge took the pending motions to dismiss under advisement. The Judge stayed discovery pending his ruling on all motions to dismiss.

On March 12, 2009, the court entered its judgment and granted the moving issuers' motion to dismiss, finding plaintiff's demand letters were insufficient to put the issuers on notice of the claims asserted against them. The judge also granted the underwriters' motion to dismiss as to the claims arising from the non-moving issuers' IPOs, finding plaintiff's claims were time-barred under the applicable statute of limitations.

On March 31, 2009, the plaintiff-appellant appealed the judgment to the Court of Appeals for the Ninth Circuit, and thereafter filed an amended notice of appeal on April 10, 2009 at the court's request. The underwriter defendants filed a cross-appeal in each of the cases wherein the issuers moved for dismissal (including the appeal relating to the Sonus IPO). The plaintiff's opening brief on appeal is due on August 26, 2009, with the issuers (including the Company) and the underwriters' responses due on October 2, 2009. The plaintiff may file a reply brief by November 2, 2009, and underwriters may file a reply brief on their cross-appeal by November 17, 2009. The Company does not currently believe that this claim will have a material impact on its financial position or results of operations.

2006 Stock Option Accounting Investigation

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

18. SUBSEQUENT EVENT

On July 16, 2009, the $9.5 million previously placed into escrow related to the agreement to settle the 2002 Securities Litigation was released to the plaintiff.

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 our Annual Report on Form 10-K for the year ended December 31, 2008 and the additional 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.

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 voice infrastructure solutions allow wireline and wireless service providers 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. Since the IMS architecture is based primarily on IP packets and the Session Initiation Protocol ("SIP"), which has been the foundation of our products since our formation, we are uniquely positioned to offer an elegant evolution path to our customers.

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.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations has been revised to give effect to the restatement described in Note 1 to the unaudited interim financial statements presented in Item 1 herein.

We incurred net losses in fiscal 2008 and 2007. Operating expenses, including litigation settlements, stock-based compensation and professional services such as legal fees were the main factors in these reported net losses. We recorded $19.1 million and $24.7 million in fiscal 2008 and 2007, respectively, of operating expense for the settlements of litigation, net of insurance recovery. Additionally, in fiscal 2008 we recorded $88.4 million of income tax expense for a valuation allowance against certain deferred tax assets. We continue to enhance our expense management processes related to our operating expenses. We anticipate, however, that we may incur net losses in future quarters and years. In addition, the current macroeconomic environment may impact our profitability, as we believe the global credit crisis may cause customers to delay or forego capacity and technology purchases.

We reported income from operations of $2.3 million and $7.5 million for the three months ended June 30, 2009 and 2008, respectively. We reported a loss from operations of $15.5 million for the six months ended June 30, 2009, compared to income from operations of $4.2 million for the six months ended June 30, 2008.

We reported net income of $4.4 million for the three months ended June 30, 2009, compared to a net loss of $36,000 for the three months ended June 30, 2008. Our net loss for the six months ended June 30, 2009 was $11.8 million, compared to net income of $0.3 million for the three months ended June 30, 2008. Our results for the three and six months ended June 30, 2008 include $3.3 million and $3.7 million, respectively, of loss from discontinued operations, net of tax. Our lower revenue in the current year was a significant factor in our reported net loss in the six months ended June 30, 2009. The lower revenue in the current year periods resulted in lower gross profit of $40.3 million in the three months ended June 30, 2009, compared to $58.1 million in the same prior year quarter, and $63.5 million in the six months ended June 30, 2009, compared to $104.0 million in the same prior year period. Operating expenses were $38.0 million in the three months ended June 30, 2009, a decrease of $12.6 million from the same prior year quarter. Operating expenses were $79.0 million in the six months ended June 30, 2009, a decrease of $20.8 million compared to the same prior year period. The reductions in the current year periods are primarily attributable to lower personnel-related costs as a result of lower stock-based compensation in the current year periods and our recent headcount reduction initiatives. During the first quarter of 2009, we implemented two headcount reduction restructuring initiatives, and in December 2008 we had implemented one headcount reduction restructuring initiative as well. As a result of these initiatives, we reduced our headcount by approximately 150 employees, or approximately 15% of our total worldwide workforce. We recorded $2.0 million of restructuring expense in the three months ended March 31, 2009 related to the 2009 initiatives. However, while we are eliminating jobs in some areas of the business, we continue to hire for select positions in some geographies to support our business plans.

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:

- maintaining our strong financial foundation;
- responding quickly to changes in the macroeconomic environment;
- improving the cost-effectiveness of our infrastructure;
- winning new business from key service providers;
- expanding and enhancing our product portfolio;
- leveraging our global sales and support capabilities; and
- developing channels and markets for our products.

Discontinued Operations

In the third quarter of 2008, we committed to a plan to sell our Zynetix Limited ("Zynetix") subsidiary. We completed the sale of Zynetix on November 26, 2008. The results of operations of Zynetix have been reclassified as discontinued operations in our condensed consolidated statements of operations for the three and six months ended June 30, 2008.

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, 2008, which was filed with the SEC on February 26, 2009. There were no significant changes to our critical accounting policies during either the three or six months ended June 30, 2009.

Results of Operations

Three and Six Months Ended June 30, 2009 and 2008

Revenue. Revenue for the three and six months ended June 30, 2009 and 2008 was as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Product	$36,320	$62,329	$ 55,723	$113,035
Service	25,287	25,461	46,896	48,382
Total revenue	$61,607	$87,790	$102,619	$161,417

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 and six months ended June 30, 2009 decreased 41.7% and 50.7%, respectively, compared to the same periods of the prior year. The decreases in the current year periods are primarily attributable to lower product sales and shipments, principally resulting from the current macroeconomic environment, coupled with the change in the fourth quarter of fiscal 2008 to ratable recognition of revenue from AT&T on a two-year maintenance contract, which also impacts the timing of the recognition of certain product revenue attributable to this customer.

Service revenue is primarily comprised of hardware and software maintenance and support, network design, installation and other professional services. Service revenue decreased 0.7% and 3.1% in the three and six months ended June 30, 2009, respectively, compared to the same periods of the prior year. The decreases in the current periods are primarily attributable to pressure on maintenance pricing, coupled with the change in the fourth quarter of fiscal 2008 to ratable recognition of revenue from AT&T on a two-year maintenance contract.

Global Crossing contributed approximately 14% of our revenue in the three months ended June 30, 2009, AT&T contributed approximately 40% and 38% of our revenue in the three and six months ended June 30, 2008, respectively, and KDDI Corporation contributed approximately 12% 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 the three or six months ended June 30, 2009 or 2008.

International revenue was approximately 22% and 25% of revenue, respectively, in the three and six months ended June 30, 2009, and 20% and 18% of revenue, respectively, in the comparable periods of the prior year. We expect that international revenue will fluctuate as a percentage of revenue from quarter to quarter.

Our deferred product revenue was $37.6 million and $30.7 million at June 30, 2009 and December 31, 2008, respectively. Our deferred service revenue was $44.9 million and $48.3 million at June 30, 2009 and December 31, 2008, respectively. Our deferred revenue balance may fluctuate as a result of the timing of revenue recognition, customer payments, maintenance contract renewals, contractual billing rights, customer creditworthiness and maintenance revenue deferrals included in multiple element arrangements.

Cost of Revenue/Gross Profit. Our cost of revenue consists primarily of amounts paid to third-party manufacturers for purchased materials and services, royalties, manufacturing and professional services personnel and related costs and inventory obsolescence. Our cost of revenue and gross profit as a percentage of revenue ("gross margin") for the three and six months ended June 30, 2009 and 2008 were as follows (in thousands, except percentages):

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Cost of revenue				
Product	$10,747	$18,337	$16,881	$35,000
Service	10,568	11,305	22,231	22,395
Total cost of revenue	$21,315	$29,642	$39,112	$57,395
Gross profit margin (% of respective revenue)				
Product	70.4%	70.6%	69.7%	69.0%
Service	58.2%	55.6%	52.6%	53.7%
Total gross profit margin	65.4%	66.2%	61.9%	64.4%

The changes in product gross margin was primarily due to product mix. The current year increases in service gross margin was primarily due to lower employee-related costs, including stock-based compensation, coupled with lower third party installation costs in the current year periods. We believe that our gross margin over time will remain 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 $15.5 million for the three months ended June 30, 2009, a decrease of $2.9 million, or 15.7%, from $18.4 million in the same period of the prior year. Research and development expenses were $31.9 million for the six months ended June 30, 2009, a decrease of $7.0 million, or 18.0%, compared to the same period of the prior year. The decreases in the current year periods primarily reflect lower employee-related costs, including lower stock-based compensation expense, compared to the same period of the prior year. 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. We believe that our research and development expenses in fiscal 2009 will decrease from prior year levels, primarily as a result of the ongoing migration of our development and quality assurance centers to lower-cost geographies.

Sales and Marketing Expenses. Sales and marketing expenses consist primarily of salaries and related personnel costs, commissions, travel and entertainment expenses, customer evaluations inventory and other marketing and sales support expenses. Sales and marketing expenses were $12.3 million for the three months ended June 30, 2009, a decrease of $6.9 million, or 35.8%, compared to $19.2 million in the three months ended June 30, 2008. Sales and marketing expenses decreased $13.4 million, or 35.4%, to $24.5 million in the six months ended June 30, 2009, compared to $37.9 million in the same period of the prior year. The current year decreases are primarily attributable to lower employee-related costs, including commission, travel and stock-based compensation expenses. We believe that our sales and marketing expenses will decrease from prior year levels, primarily the result of lower personnel and related costs.

General and Administrative Expenses. General and administrative expenses consist primarily of salaries and related personnel costs for executive, information technology ("IT") and administrative personnel, recruiting expenses, foreign exchange gains and losses, allowance for doubtful accounts and professional fees. General and administrative expenses were $10.2 million in the three months ended June 30, 2009, a decrease of $2.8 million, or 21.9%, compared to $13.0 million in the three months ended June 30, 2008. General and administrative expenses decreased by $2.3 million, or 10.2%, to

$20.7 million for the six months ended June 30, 2009, from $23.0 million in the six months ended June 30, 2008. The decreases in the current year periods are primarily attributable to lower stock-based compensation expense and legal, audit and consulting fees. We believe that our general and administrative expenses will decrease from prior year levels, primarily due to lower expected professional fees and other consulting costs.

Restructuring. In the three months ended March 31, 2009, we recorded restructuring expenses aggregating $2.0 million related to two headcount initiatives implemented as part of our efforts to right-size the business to align with market opportunities while managing costs to position Sonus for profitable growth. We recorded $0.9 million of severance and related expenses for our January 9, 2009 restructuring initiative, which reduced our workforce by approximately 40 people, or 4% of employees worldwide. We recorded $1.1 million of severance and related expenses for our March 10, 2009 restructuring initiative, which further reduced our workforce by approximately 60 people, or 6% of employees worldwide.

Interest Income, net. 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 in the three and six month periods ended June 30, 2009 and 2008. Interest income, net of interest expense, was $1.1 million and $3.2 million in the three months ended June 30, 2009 and 2008, respectively, and $2.7 million and $7.1 million in the six months periods. The reductions in interest income, net, in the current year periods reflect lower cash and investment balances, coupled with a lower average portfolio yield.

Other Income (Expense), net. We recorded $19,000 and $6,000 of other income in the three months ended June 30, 2009 and 2008, respectively, and $12,000 and $385,000 of other income in the six months then ended. The amount for the six months ended June 30, 2008 relates to a change in estimate to our loss contingency for the settlement of an employment tax audit by the Internal Revenue Service in 2008.

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 recorded in the period that they occur. This estimate is reevaluated each quarter based on our estimated tax expense for the full fiscal year.

During the fourth quarter of fiscal 2008, we concluded that there was insufficient positive evidence to overcome the more objective negative evidence related to our cumulative losses and other factors. Accordingly, we recorded an increase to our valuation allowance on substantially all of our domestic net deferred tax assets. The estimated effective rate for the year ended December 31, 2009 does not include any benefit for our projected domestic losses as we have continued to conclude that a valuation allowance is appropriate.

For the six months ended June 30, 2009 we realized a discrete benefit related to our United Kingdom operations totaling $1.1 million, as the result of a settlement with the taxing authorities. Our effective tax rates, including discrete items, were 7.7% and 65.7% for the six months ended June 30, 2009 and 2008, respectively. The income tax expense of $7.7 million in the six months ended June 30, 2008 primarily reflects a current expense for federal, state and foreign taxes and differed from the statutory federal and state rates due to losses in certain foreign jurisdictions for which we were unable to recognize a tax benefit, and the impact of permanent nondeductible items, such as stock-based compensation expense.

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, 2009, our cash, cash equivalents, marketable securities and investments totaled $387.4 million.

Our operating activities provided $12.4 million of cash in the six months ended June 30, 2009. Cash provided by operating activities was the result of lower levels of accounts receivable and higher deferred revenue and accounts payable, coupled with non-cash adjustments for stock-based compensation, depreciation and amortization of property and equipment, and amortization of intangible assets. These amounts were partially offset by our net loss, lower accrued expenses and higher levels of operating assets and inventory. The lower accounts receivable levels are primarily the result of focused collection efforts in the quarter as a result of the strong seasonal billings and shipments in late fiscal 2008. 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, the completion of an employee stock purchase under our ESPP, and lower taxes payable, accrued royalties and professional fees. The increase in operating assets is primarily attributable to higher deferred costs, including cost of goods, royalties, commissions and third party installation costs, for which the related revenue has not yet been recognized.

Our investing activities provided $79.0 million of cash in the six months ended June 30, 2009, primarily comprised of $91.8 million of net sales and maturities of marketable securities and investments, partially offset by $9.5 million placed into escrow related to the agreement to settle the 2002 Securities Litigation and $3.4 million for purchases of in property and equipment. The escrow amount was released on July 16, 2009.

Our financing activities provided $0.1 million of cash in the six months ended June 30, 2009, including $0.5 million of proceeds from the sale of common stock in connection with our ESPP, partially offset by $0.3 million used to pay withholding obligations related to the net share settlement of restricted stock awards upon vesting and $0.1 million used for payments on our capital leases for office equipment.

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. Although 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 controls environment and for other general corporate activities, as well as to vigorously defend against existing and potential litigation. See Note 17 to our condensed consolidated financial statements.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 168, *The FASB Accounting Standards Codification™ and the*

Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162 ("SFAS 168"). The FASB Accounting Standards Codification (the "Codification") is intended to be the source of authoritative U.S. GAAP and reporting standards as issued by the FASB. Its primary purpose is to provide clarity and use of existing standards by grouping authoritative literature under common topics. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Codification does not change or alter existing GAAP and there is no expected impact on our consolidated financial position or results of operations.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* ("SFAS 165"), which defines the subsequent events or transactions period, circumstances under which such events or transactions should be recognized, and disclosures regarding subsequent events or transactions. SFAS 165 is effective for interim or annual periods ending after June 15, 2009. The Company has adopted the provisions of SFAS 165 as of June 30, 2009. Although the adoption of SFAS 165 did not materially impact our financial condition, results of operations or cash flow, we are now required to provide additional disclosures, which are incorporated in Note 1.

In April 2009, the FASB issued FASB Staff Position ("FSP") FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* ("FSP 115-2 and 124-2"), which addresses the determination as to when an investment is considered impaired, whether that impairment is other-than-temporary, and the measurement of an impairment loss. FSP 115-1 and 124-1 also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. FSP 115-1 and 124-1 was effective for us in the quarter ended June 30, 2009. In accordance with FSP 115-1 and 124-1, we reviewed our unrealized loss positions for the individual securities within our investment portfolio, and determined that there were no securities with declines attributable to credit loss. In addition, we do not intend to sell these securities; accordingly, we do not believe these declines are other-than-temporary. Based on our assessment of our investment portfolio, we recorded all changes in fair value as compared to amortized cost to Accumulated other comprehensive income within Stockholders' equity in our Condensed Consolidated Balance Sheet as of June 30, 2009.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* ("FSP 157-4"), which provides additional guidance for estimated fair value in accordance with Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*, when the volume and level of activity for the asset or liability have significantly decreased. FSP 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP 157-4 was effective for us in the quarter ended June 30, 2009, and does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, FSP 157-4 requires comparative disclosures only for periods ending after initial adoption. There was no material impact from the adoption of this standard.

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, 2008.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Our management (with the participation of our Chief Executive Officer and Chief Financial Officer) evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of June 30, 2009. Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures are effective and designed to ensure that the information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the requisite time periods.

Limitations on Effectiveness of Controls. Our management has concluded that our disclosure controls and procedures and internal controls provide reasonable assurance that the objectives of our control system are met. However, our management (including our Chief Executive Officer and Chief Financial Officer) does not expect that the disclosure controls and procedures or internal controls will prevent all error and/or fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, errors and instances of fraud, if any, within the company have been or will be detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple errors or mistakes. 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 control. The design of any system is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurances that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

Changes in Internal Control over Financial Reporting. In connection with the adjustment to stock-based compensation identified by the Company during the second quarter of 2009 we performed additional reviews of all historical stock-based compensation accounting. Additionally, in connection with the upgrade to the new version of the third party software we use to track options and calculate stock-based compensation expense, we ensured the accuracy of the data conversion process and independently recalculated the expense outside of the software program for a sample of awards to ensure the accuracy of the calculation. Furthermore, because we understand that the calculation of stock-based compensation is a complex calculation that relies on many different variables and expense assumptions, we have added an additional control to further strengthen our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) for the quarter ending June 30, 2009. This additional control procedure is to test the calculation of the stock-based compensation system reports on a quarterly basis, including a third party review on at least an annual basis, or whenever we upgrade the software system used for this information.

The Company will monitor and test the effectiveness of controls for the remainder of the year.

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, 2008. Material developments to these legal proceedings during the quarter ended June 30, 2009 are detailed above in Note 15 and Note 17 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 following risk factors have been added since the filing of our Annual Report on Form 10-K for the year ended December 31, 2008:

World-wide efforts to cut capital spending, general economic uncertainty and a weakening global economy could have a material adverse effect on us.

We are unable to predict the duration and severity of the current economic downturn and disruption in financial markets or their effects on our business and results of operations, but the consequences may be materially adverse and more severe than other recent economic slowdowns. Some of our current or prospective customers may cancel or delay spending on the development or roll-out of capital and technology projects with us due to the economic downturn and, consequently, our results of operations may be adversely affected. In addition, the current negative worldwide economic conditions and market instability make it increasingly difficult for us, our customers and our suppliers to accurately forecast future product demand, which could result in an inability to satisfy demand for our products and a loss of market share.

Our operating results may suffer if the general condition of the telecommunications industry experiences continued downward pressures.

We are subject to the market conditions of the telecommunications industry. Economic conditions worldwide have from time to time contributed to slowdowns in the telecommunications and networking industries. Downturns and pricing pressures may result in reduced demand for our communications products and services. General domestic and foreign economic conditions and other factors that reduce spending by companies in the telecommunications industry may have an adverse effect on our consolidated financial position, results of operations or cash flows.

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 2009, which represent shares returned to satisfy tax withholding obligations:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs
April 1, 2009 to April 30, 2009	1,389	$ 1.57	—	—
May 1, 2009 to May 31, 2009	474	$ 1.88	—	—
June 1, 2009 to June 30, 2009	81,370	$ 1.99	—	—
Total	83,233	$ 1.98	—	—

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

The 2009 annual meeting of stockholders of Sonus Networks, Inc. was held on June 19, 2009. Of the 273,513,706 shares outstanding as of April 24, 2009, the record date, 255,770,586 shares (93.5%) were present or represented by proxy at the meeting. The results of the votes on each of the proposals are as follows:

1. The following three directors were elected to hold office until the 2011 annual meeting of stockholders.

	Number of Shares	
	For	Withheld
James K. Brewington	236,629,296	19,141,290
Richard N. Nottenburg	190,456,854	65,313,732
Scott E. Schubert	237,168,454	18,586,252

The continuing directors of the Company are John P. Cunningham, Howard E. Janzen, John A. Schofield, Paul J. Severino and H. Brian Thompson.

2. A proposal to amend the Company's fourth amended and restated certificate of incorporation to declassify the Company's Board of Directors as of the 2011 annual meeting of stockholders was approved.

	Number of Shares
For	238,777,118
Against	16,211,294
Abstained	766,293

3. A proposal to engage in a stock option exchange tender offer was approved.

	Number of Shares
For	157,068,939
Against	25,684,254
Abstained	781,833
Broker non-votes	72,235,560

4. A proposal to amend the Sonus 2007 Stock Incentive Plan was approved.

	Number of Shares
For	165,034,411
Against	17,698,224
Abstained	802,391
Broker non-votes	72,235,560

5. The ratification of the appointment of Deloitte & Touche LLP as Sonus' independent registered public accounting firm for the fiscal year ending December 31, 2009 was approved.

	Number of Shares
For	242,718,038
Against	12,473,894
Abstained	578,654

Item 6. Exhibits

Exhibit Number	Description
3.1(a)	Amended and Restated By-Laws of Sonus Networks, Inc.
3.2(a)	Fourth Amended and Restated Articles of Incorporation of Sonus Networks, Inc., as amended through June 19, 2009.
10.1(a)	2007 Stock Incentive Plan.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(a) Incorporated by reference from the Registrant's Current Report on Form 8-K (File No. 001-34115) filed with the Securities and Exchange Commission on June 22, 2009.

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: July 30, 2009	SONUS NETWORKS, INC.	
	By:	/s/ RICHARD J. GAYNOR
		Richard J. Gaynor Chief Financial Officer (Principal Financial Officer)
	By:	/s/ WAYNE PASTORE
		Wayne Pastore Vice President, Finance, Corporate Controller and Chief Accounting Officer (Principal Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description
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(a) Incorporated by reference from the Registrant's Current Report on Form 8-K (File No. 001-34115) filed with the Securities and Exchange Commission on June 22, 2009.

EXHIBIT 31.1

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: July 30, 2009

/s/ RICHARD N. NOTTENBURG

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

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EXHIBIT 31.1

EXHIBIT 31.2

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

I, Richard J. Gaynor, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: July 30, 2009	/s/ RICHARD J. GAYNOR
	Richard J. Gaynor Chief Financial Officer (Principal Financial Officer)

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EXHIBIT 31.2

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, 2009 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: July 30, 2009

/s/ RICHARD N. NOTTENBURG

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

EXHIBIT 32.2

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

In connection with the Quarterly Report on Form 10-Q of Sonus Networks, Inc. (the "Company") for the period ended June 30, 2009 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: July 30, 2009

/s/ RICHARD J. GAYNOR

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

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EXHIBIT 32.2