

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
SEC Accession No. [0000905718-99-000204](#)

([HTML Version](#) on secdatabase.com)

FILER

DIALOGIC CORP

CIK:[899042](#) | IRS No.: **222476114** | State of Incorp.:**NJ** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: [000-23816](#) | Film No.: **99574627**
SIC: **3576** Computer communications equipment

Business Address
1515 US RTE 10
PARSIPPANY NJ 07054
9739933000

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 1998.

[] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ____ to ____.

Commission File Number 33-59598

DIALOGIC CORPORATION
(Exact name of registrant as specified in its charter)

New Jersey 22-2476114
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

1515 Route 10, Parsippany, New Jersey 07054 (973) 993-3000
(Address and telephone number, including area code, of registrant's principal executive office)

Securities registered pursuant to Section 12(b) of the Act: none.

Securities registered pursuant to Section 12(g) of the Act:

Title of each class

Common Stock, no par value, stated value \$.01

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ____

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

Aggregate market value of voting stock held by non-affiliates as of February 1, 1999 was approximately \$292,404,000 .

Number of shares of Common Stock outstanding as of February 1, 1999: 16,394,993.

Documents incorporated by reference: Annual report to shareholders for the year ended December 31, 1998 (Part II); Definitive proxy statement for the registrant's 1999 annual meeting of shareholders (Part III).

DIALOGIC CORPORATION
TABLE OF CONTENTS

PART I	Page
Item 1 Business of the Company.....	3
Item 2 Properties.....	23
Item 3 Legal Proceedings.....	23
Item 4 Submission of Matters to a Vote of Security Holders....	25
Item 4A Executive Officers of the Registrant.....	25
PART II	
Item 5 Market for the Registrant's Common Equity and Related Stockholder Matters.....	28
Item 6 Selected Financial Data.....	28

Item 7	Management's Discussion and Analysis of Results of Operations and Financial Condition.....	28
Item 7A	Quantitative and Qualitative Disclosure About Market Risk	28
Item 8	Financial Statements and Supplementary Data.....	28
Item 9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	29
PART III		
Item 10	Directors of the Registrant.....	30
Item 11	Executive Compensation.....	30
Item 12	Security Ownership of Certain Beneficial Owners and Management.....	30
Item 13	Certain Relationships and Related Transactions.....	30
PART IV		
Item 14	Exhibits, Financial Statements Schedules and Reports on Form 8-K.....	31
Signatures	34

Item 1. Business of the Company

Introduction

Dialogic Corporation was incorporated in New Jersey in 1983, and has its principal executive offices located at 1515 Route 10, Parsippany, New Jersey 07054. The terms "Company" and "Dialogic" used in this report refer to the Registrant and its consolidated subsidiaries unless the context indicates otherwise.¹

On February 17, 1998, the Company sold substantially all of the assets of its Spectron Microsystems, Inc. subsidiary, which had been acquired in 1995, to Texas Instruments Inc. for approximately \$26 million in cash and the assumption by the buyer of substantially all of Spectron Microsystems' liabilities. Spectron Microsystems was in the business of developing software for DSP operating systems.

Certain statements contained in this Annual Report on Form 10-K, including, without limitation, statements containing the words "believes", "anticipates", "estimates", "expects", and words of similar import, constitute forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 ("Forward-Looking Statements"). Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected in such Forward-Looking Statements. Certain factors which could materially affect such results and the future performance of the Company are described below under "-- Risk Factors".

General

Dialogic designs, manufactures and markets hardware and software enabling technologies for "computer telephony" systems. "Computer telephony" is the term used to encompass a wide variety of technologies and applications that use the information processing capabilities of a computer (often a server) to add intelligence to telephone functions and to combine these functions with data processing. The Company's products are offered as modular building blocks that enable its customers--primarily Value-Added Resellers ("VARs"), Original Equipment Manufacturers ("OEMs"), systems integrators, service providers and applications developers--to design computer telephony systems that meet the applications demands of their end-user customers. Dialogic has promoted the acceptance of open, non-proprietary computer telephony systems, enabling its customers to respond to end-user demand for standards-based systems and expanding the types of systems into which the Company's products may be incorporated. The Company's customers vary in size from small ventures to major computer and telecommunications companies worldwide.

The Company's hardware signal computing products receive and process signals from telecommunications networks and perform computing functions to convert the signals to data appropriate for various types of computer systems. These computing functions are based upon algorithms for a variety of features, including voice compression, voice storage, speech recognition, tone recognition and facsimile compression. Conversely, the Company's signal computing products also take computer data and convert it to signals compatible with telecommunications networks by using algorithms for features such as speech synthesis, voice decompression, tone signaling and facsimile generation. Dialogic's signal computing hardware products typically provide one or both of

two elements--a signal processing resource and a network interface. Signal processing resources perform specific functions. Network interfaces connect a system, normally a personal computer, to telephone and data networks. Dialogic's hardware products are offered in the form of circuit boards/platforms to be installed in a variety of computer chassis. Typically, Dialogic hardware products are provided bundled with software elements, such as drivers, which enable the hardware product to work in the host environment and to be compatible with other elements within the system in which they are installed. Software functionality is also contained in the firmware modules of the Company's hardware products.

The Company also licenses the use of various standalone software products, such as CT Connect and CT Media, which provide middleware functionality within a system, enabling an application designer to design to a uniform Applications Programming Interface ("API") and provide server resource management and application interoperability. Dialogic also provides various products which include third party provided technology embedded in Dialogic boards, particularly involving text to speech and voice recognition on Antares boards. Dialogic services are addressed to professional, technical support, consulting, training and custom platform services.

Dialogic offers a broad product line, allowing its customers to develop computer telephony applications with components that are compatible and scaleable across different ranges of density and performance. Such applications, which are marketed by Dialogic's customers for ultimate use in public networks, private networks and on customer premises, include:

- o Internet gateway and gatekeeper applications, including:
 - o Voice over the Internet
 - o Fax over the Internet
- o Database interaction applications, which query and make changes to databases based on touchtone or voice input, including:
 - o Audiotex - giving 24-hour telephone access to a menu-selected database of recorded (spoken) information
 - o Fax-on-demand - giving 24-hour telephone access to a menu-selected database of printed information
 - o Interactive voice response - giving 24-hour telephone access, with update privileges, to an indexed database of records
 - o Interactive fax response - faxing hard-copy confirmations of touchtone queries or transactions
- o Multimedia applications which store and forward data, fax and voice, including:
 - o Voice mail
 - o Fax servers, which typically enable desktop users to electronically generate, transmit, store and retrieve fax messages via local area network connections
 - o Paging
 - o Unified messaging, which presents e-mail, fax and voice messages through one screen interface and converts from e-mail to fax or voice for remote telephone access. Multimedia messaging systems link voice mail, email, and fax services, presenting access to all three types of media messages from one workstation screen, and allowing users to hear, read, or view them in any order they choose. These systems can also receive messages in one medium and forward them in another. For example, email messages can be converted using text-to-speech (TTS) technology into voice messages that can then be accessed from a telephone.
- o Intelligent call control applications, which automate services that once required the intervention of an operator, including:
 - o Call centers, where a large number of agents process inbound requests or outbound sales calls
 - o Help desk automation, which directs a call to the support staffer with the appropriate expertise
 - o Conferencing, which enables more than two parties to call a control number, with active or passive (i.e., listening) privileges
 - o Predictive/autodialing, which dials out to lists of phone numbers, screens out certain calls (e.g., no-answers) and delivers live prospects to telemarketing agents
 - o Personal communications agents, which screen and forward calls based on a user's itinerary and instructions
 - o PBX, which enables connections between users both within the system and to parties outside the system
 - o Voice dialing, which generates a dial sequence based on the user's spoken input
- o Voice Processing Applications, which use speech recognition and Text-to-Speech
- o Open Communications Servers, which provide PC-based open switching, permitting integration of call switching and computer telephony technologies

Strategy

The first computer telephony systems, like the first computing systems, were built using proprietary hardware and software. Over the last few years numerous computer telephony vendors have adopted open, or non-proprietary, personal computer ("PC") platforms and standard operating systems, such as Windows NT, Windows 95, UNIX, OS/2, or DOS, as elements of their computer telephony systems. This shift toward open platforms has been driven by the rapid increase in performance and power of standard microprocessors, the general availability of add-on hardware and software components, growth in the functionality of the PC and cost savings due to lower PC prices.

The Company's strategy is to position Dialogic to benefit from the growing acceptance of open call processing systems. The Company seeks to support this strategy through the following approaches:

- o Advocate Open Systems. The Company believes that open architectures provide many advantages to systems developers, including (i) reducing the time needed to bring new products to market, (ii) reducing customers' maintenance and continuing engineering costs, (iii) providing access to a variety of technologies from third-party vendors, (iv) enabling customers to focus their efforts on marketing and end-user applications, (v) protecting customers so that they will not be dependent upon a particular technology and therefore be precluded from accessing new technologies and (vi) enabling customers and end-users to benefit from the economies associated with open architectures. As part of its commitment to open architectures, Dialogic designs its modular components to satisfy established industry standards. Its products work in a variety of PC platforms and form factors and support standard operating systems. Furthermore, to support its international sales efforts, the Company designs its products to meet international telecommunications standards. At the same time, Dialogic advocates the value to end-users of requesting their computer telephony vendors to provide open systems, thereby encouraging the "pull through" of open components.
- o Develop Signal Computing Technologies. Dialogic believes that voice, image and data processing technologies are converging at a rapid rate. This convergence is reflected in the demand for unified messaging systems in the telecommunications and computing industries. In the telecommunications field, voice processing systems are being designed to integrate voice, fax and e-mail messages; similarly, within the computing industry, unified messaging may be addressed by servers that provide the client with access to voice, fax and e-mail messages. By focusing on signal computing technologies, such as the Company's DM3 Mediastream Architecture, Dialogic seeks to have its products incorporated in a wide variety of business computing applications that address one or more voice, image and data processing functions. As PC platforms decline in price and continue to be widely deployed, and as reliable, user-friendly multi-tasking operating systems become more widely accepted, the Company intends to provide its customers with products that support multi-application uses and that benefit from this technological convergence. This statement regarding the Company's intent constitutes a Forward-Looking Statement. Actual results may differ from the Company's intentions as a result of a number of factors, including the extent to which the Company is able to respond to technological developments and competitive responses. See "--Risk Factors".
- o Promote Open Communications Servers: Increasingly, Dialogic is focusing activities on enabling open communications servers, based on a client/server computing model. The open communications server is analogous to the concept of a database server that is open to multiple suppliers and applications. In this open, client/server model, telephony becomes a peer to other computing resources. The open communications server can support traditional and IP networks transparently, and it can be integrated and managed with other IT services. Software interoperability and wider application and technology choices become key differentiating features. The elements of Dialogic's vision of an open communications server include:
 - o Interoperable applications and software tools
 - o Standards-based administration tools
 - o Choice of standard, open APIs (TAPI, S.100, CSTA)
 - o Standards-based middleware (CT Media[TM] for Windows NT, CT-Connect[TM] software)
 - o Choice of standard, modular hardware technologies (voice, fax, Automatic Speech Recognition, Text To Speech, switching, conferencing; T-1, E-1, ISDN, BRI, ATM interfaces; based on the ECTF H.100/H.110 connection standard)
 - o Open, standard computing platforms and operating systems (ISA, PCI, cPCI, VME; Windows NT, UNIX)
 - o Wide range of technologies delivered on standards-based, high-performance, modular, scalable components from different vendors
 - o Standard SPIs (based on the emerging ECTF S.300 specification)
 - o Standard hardware interfaces and software APIs that simplify

- development and ensure interoperability and portability across platforms
- o Expandable and scalable servers (from 2-port to high-density multiport solutions)
- o Servers that run on standard computing platforms
- o Ease in adding new features and services using modular "off-the-shelf" components and applications

These statements regarding the Company's intent and the eventual elements of an open communications server constitute a Forward-Looking Statement. Actual results may differ from the Company's intentions as a result of a number of factors, including the extent to which the Company is able to respond to technological developments and competitive responses; the development of industry and de facto standards; availability, features and price of alternative approaches and marketplace adoption of Dialogic's approach. See "--Risk Factors"

- o Initiate and Promote Uniform Standards. Dialogic's Signal Computing System Architecture ("SCSA") reflects the Company's commitment to the expansion of existing call processing technology through open architectures. The goal of SCSA is to develop and gain broad domestic and international acceptance for a variety of computer telephony standards and technologies. The essential elements of SCSA are the development of (i) software standards for use by the computer telephony industry, (ii) buses with increased bandwidth and capability to support high capacity platforms, (iii) a wide range of products available from multiple vendors that enable systems developers to integrate voice, image and data technologies in order to build unified messaging solutions and (iv) technologies that are designed to permit scalability from single node stand-alone systems to multi-node distributed systems, thereby allowing customers to expand from low to high capacity products with relative ease. SCSA participants include computer suppliers, component manufacturers, hardware suppliers, algorithm and technology developers, call processing systems suppliers and leading telecommunications equipment manufacturers. Substantially all of the major products in Dialogic's current product line incorporate one or more aspects of SCSA. In 1995, Dialogic joined Digital Equipment Corporation, Ericsson Business Networks, Hewlett-Packard and Northern Telecom in forming the Enterprise Computer Telephony Forum ("ECTF"). The principal goal of the ECTF is to oversee the evolution of industry-wide standards implementation for computer telephony. Dialogic has contributed to ECTF its Telephone Application Object (TAO) software framework to assist in the development of a series of open interfaces. In the Internet field, Dialogic has been active in the International Multimedia Teleconferencing Consortium, the European Telecommunications Standards Institute ("ETSI"), the Internet Engineering Task Force ("IETF") and the International Telecommunications Union ("ITU") advocating standards for Internet products that will enable different vendors' gateways and products to interoperate. Dialogic's CT Media middleware product is an implementation of the ECTF S.100 standard. Dialogic also works with de facto standards, such as Microsoft's TAPI (Telephony Applications Programming Interface).
- o Leverage Technological Expertise in Computer Telephony. Dialogic's core technical competence is the development of computer telephony technologies that are embedded in the Company's hardware, software and digital signal processing algorithms. Dialogic believes that its future success depends upon its ability to continually expand its technical capabilities and to provide technically advanced components that are responsive to technological advances and changes in industry standards. Dialogic also has increased its efforts in developing professional services as a business unit drawing on this expertise. Accordingly, the Company spends, and intends to continue to spend, substantial amounts on research and development. Statements in this Annual Report regarding future research and development spending constitute Forward Looking Statements. See "--Risk Factors". Factors that could affect the level of research and development spending include market conditions, the nature of customer demand, competitors' product announcements, patent and/or license availability and claims and regulatory requirements.
- o Provide Customers with a Broad Range of Products. Dialogic enables its systems developer customers to develop and offer a broad range of applications by providing its customers with building blocks that are designed to conform to widely accepted standards, much in the same way that the standardization of PC platforms has resulted in an entire industry of data processing software developers. The Company's modular approach also enables systems developers and integrators to build progressively larger systems with more application features without making significant changes in the underlying technologies.
- o Develop Collaborative Customer Relationships. Dialogic believes that it is essential to maintain close communications with its customers in order to understand their needs. Through contacts at both the field and management levels, the Company reviews application design and hardware configuration issues and application objectives with its customers. Dialogic seeks to serve as a problem solver in helping to

construct new and enhanced call processing systems. The Company also seeks to educate systems developers about the broad range of applications that may be provided through use of the Company's computer telephony components, in part by conducting seminars to train customers' engineers in the use and potential applications of Dialogic modules.

- o Expand International Presence. Dialogic believes that advances in voice, image and data processing technologies, growing international acceptance of the benefits available from these technologies and deregulation and privatization of international telecommunications networks will drive increased acceptance of computer telephony technology in international markets. Dialogic also believes that certain voice processing markets are less mature than those in the United States and offer more opportunities for both traditional products, like voice mail, and for leapfrogging technology, like voice over Internet. See "--Risk Factors." No assurances can be given with respect to the pace of deregulation and privatization, which may differ significantly from country to country, or the degree to which deregulation and privatization may result in demand for Company products. The Company's familiarity with international regulatory requirements has enabled it to gain approvals for its products in many international markets, thus providing its customers with the opportunity to reduce the time necessary to market their products internationally.
- o Complement Internal Growth with Strategic Alliances, Acquisitions and Investments. Dialogic believes that opportunities exist to extend and enhance its current lines of business and distribution capabilities through investments in or acquisitions of businesses in the computer telephony industry and related fields and through alliances with other entities. Management intends to analyze such opportunities that become available to the Company and to consider pursuing those opportunities that complement or supplement its business strategies.

Dialogic's presentation above of its business strategies reflects the Company's planning for the future and thus may constitute a Forward-Looking Statement. No assurance can be given as to whether or as to the extent that the Company will be successful in the pursuit of its business strategies. Factors which could impact the Company's ability to pursue such strategies are set forth below under "--Risk Factors".

Products

Dialogic operates and manages its business under one segment, "Computer Telephony." "Computer Telephony" is the term used to encompass a wide variety of technologies and applications that use the information processing capabilities of a computer (often a server) to add intelligence functions and to combine those functions with data processing. Management has reached the conclusion that the Company operates as one segment after considering a variety of factors including the nature of products sold, production process, customer base and distribution methods and determining that they are similar entity wide. The Company primarily derives its revenue from the sale of telephony boards that are offered as modular building blocks that enable its customers - primarily VARs, OEMs, system integrators, service providers and application developers - to design computer telephony systems that meet the application demands of their end-user customers. Individual products are described below.

- o Dialogic Media and Network Interface Products
 - o IP Telephony Products - DM3[TM] IPLink[TM] Platform products are a set of medium- to high-port density boards which are designed to provide voice and fax capability over Internet Protocol (IP) networks. These products are used in IP telephony gateways, corporate WAN telephony traffic, and Web-enabled call centers. IPLINK Platform products feature an on-board H.323 stack, multiple vocoding algorithm support, comprehensive H.323 client support, standard Internet protocol support, and advanced voice and call processing features.
 - o High-Density Voice Products - These board products are designed for public network-based enhanced services, call centers, and other demanding high-volume voice applications in the enterprise. The QuadSpan[TM] Series, based on Dialogic's

DM3 mediastream architecture, features four on-board T-1 or E-1 digital network interfaces for up to 120 voice ports available in a single PC slot. The SingleSpan[TM] and DualSpan[TM] Series provide different voice-port-per-slot densities for optimizing system configurations. Dialogic high-density voice products feature analog loop start or digital network interfaces and SCbus[TM]/CT Bus[TM] (ECTF H.100/H.110) connectivity. They are available in ISA, PCI, VME, and cPCI form factors.

Dialogic voice products are based on Dialogic's SpringWare[TM] voice algorithms, which include PerfectVoice[TM] enhanced voice coding, PerfectDigit[TM] DTMF and MF signaling, Global Tone Detection[TM], Global Tone Generation[TM], PerfectCall[TM] call progress analysis, PerfectPitch[TM] speed control, PerfectLevel[TM] volume control,

Global Dial Pulse Detection[TM], Positive Voice Detection[TM], and Positive Answering Machine Detection[TM].

- o High-Density Fax Products - Dialogic's DM3 Fax Series products are facsimile boards that provide 24 or 30 send and receive fax ports of processing power, various messaging alternatives, 14.4 Kb/s transmission and reception rates, and T.30 connectivity, based on DM3 architecture. Dialogic high-density fax products feature digital network interfaces, SCbus/CT Bus connectivity, and ISA, PCI, VME, and cPCI form factors.
 - o Low-Density Voice Products - A series of Dialogic voice messaging products like the DIALOG/4[TM], ProLine/2V[TM], D/21H[TM], and D/41H[TM] provide boards with 2- or 4-ports of voice for less demanding applications. The D/42[TM] Series allows integration of voice messaging features with popular PBXs. Starter Kits are available for beginning CT developers. All low-density voice products use SpringWare voice processing features.
 - o Low-Density Fax Products - Dialogic CP fax products, like the CPI/200[TM], CPD/220[TM] and CP4/LSI[TM], are boards which provide a wide range of densities, form factors and network interfaces.
 - o Enhanced Speech Technology Products - Dialogic platform speech technology components support automatic speech recognition, text-to-speech, speech compression, and voice verification from third party providers. The Antares Open Platform is a general purpose signal processing platform which connects to other call processing platforms over a digital bus. Various third-parties have developed enhanced software for the Antares platform. Speech recognition capability, provided by companies such as Voice Control Systems, Lernout & Hauspie, PureSpeech, Telefonica, CSELT and France Telecom/CNET, enables call processing applications to interpret words spoken by a telephone caller. Enhanced capabilities include continuous speech recognition, alphabet recognition and speaker verification. Text-to-speech software has been developed for the Antares platform by Lernout & Hauspie, Centigram, Telefonica and CSELT. These products convert ASCII text to synthesized speech, enabling call processing applications to play back selected information files.
 - o Professional Conferencing Products - Dialogic's DCB/SC[TM] Series boards provide capabilities for high-end professional conferencing requiring multiple conference support, large numbers of conferees (over 100), and sophisticated features like active talker status, on-board DTMF detection/clamping, coaching, and individual volume control. Less demanding business conferencing applications can use the MSI/SC[TM] Series for connecting analog devices to digital networks.
 - o Network Interface Products - Dialogic has network interface products supporting a variety of protocols, including SS7, ATM, BRI ISDN, PRI ISDN, analog loop start, T-1/E-1 digital, and Internet protocol (IP). Some products are network interface-only boards that can be connected via the SCbus/CT Bus with compatible products. Others are integrated with Dialogic media firmware to create combination products (media with interface products) that have SCbus/CT Bus connectivity or are standalone (nonbus) products.
- o Dialogic Subsystem Products
- o VoiceBrick[TM] - An integrated voice mail platform for the small office, the VoiceBrick platform is an open, self-contained unit with 2- or 4-port voice, flash memory, a built-in real-time clock, and a watch dog timer for automatic recovery from application crashes.
 - o DVM[TM] Series - Dialogic Voice Modules[TM] are integrated hardware platforms combining Dialogic SpringWare voice processing technology and a low-profile PC system, designed for volume OEM customers.
 - o Dialogic Software Products
Historically, revenue from the sale of standalone software products has not been material to the overall revenue of the Company. Software products are described below.
 - o CT Media for Windows NT - CT Media middleware handles the details of resource management and allows applications to interoperate and be independent of the underlying hardware. CT Media for Windows NT middleware provides a key component for building open communications servers. Based on the SCSA Software Model, CT Media middleware allows application developers to write software to standard APIs (like TAPI or ECTF S.100) that can run on a common server. CT Media middleware handles the details of resource management including managing system resources, grouping and providing resources to handle application tasks, and transferring calls and resources among multiple client applications, and allows applications to interoperate and to be independent of the underlying hardware. CT Media middleware provides an open client/server approach for computer telephony server design. With CT Media middleware, systems developers can run multiple vendors' applications such as telephony switching, call center automation, voice mail, and fax on demand on the same Windows NT server. Developers can also add new technologies to the server without changing existing applications.
 - o CT-Connect Call Control Server Software - CT-Connect software connects telephone switches to a variety of data processing environments. CT-Connect client/server software technology supports industry-standard hardware, operating systems, network services, and

call control programming interfaces such as TAPI, TSAPI, ActiveX, and DDE. The software runs under either Microsoft Windows NT or Sun Solaris operating system environments and supports comprehensive call control and monitoring through links to many popular telephone switches.

- o BoardWatch[TM] - This client/server SNMP software monitors and reports on the status of Dialogic devices installed in a CT system. With BoardWatch remote administration capabilities, technical support departments can directly view the board model, driver, and firmware versions, as well as other important configuration and performance information about the machines and boards, without assistance from the remote user. BoardWatch can help reduce the cost of owning and maintaining sophisticated systems.
- o Development Tools -PBXpert[TM] software helps developers integrate a legacy PBX with a voice processing system. DialView[TM] software enables an ISDN PRI link between two Dialogic systems so developers can test and develop ISDN applications without using an expensive protocol emulator. Dialogic works with many third parties to provide software toolkits which simplify application development. Toolkits are available in each of the supported operating systems.

Technologies Supported by Dialogic Products

Dialogic's platforms support a variety of technologies, whose functionality in finished products is largely driven by application software and middleware supplied by the Company's customers and other third-parties. These technologies include:

- o Voice. Voice technology involves processing and manipulating audio signals in a computer telephony system. Voice technology functions include filtering, analyzing, recording, digitizing, compressing, storing, expanding and replaying such signals, as well as receiving, recognizing and generating specific telephone and network tones. In addition, this technology includes multiparty voice conferencing.
- o Network Interfaces. A call coming from the telephone network to a computer telephony system can be carried on a variety of lines, from analog loop start to digital, T-1 and E-1 and primary rate integrated services digital network (ISDN) lines. These calls can be routed to analog and digital basic rate interface (BRI) station devices for call center applications. Dialogic manufactures and sells platforms that are compatible with various popular network interfaces utilized throughout the world.
- o Facsimile. Fax technology transmits a copy of paper-based documents and images over telephone lines. In a PC-based system, fax technology can also transmit and receive computer-generated files.
- o Automatic Speech Recognition ("ASR"). ASR is an algorithm that recognizes human speech. Speaker-independent ASR can recognize a limited group of words and numbers from any caller. Speaker-dependent ASR can identify a large vocabulary of commands from a specific speaker.
- o Text-to-Speech ("TTS"). TTS is an algorithm that generates intelligible, synthetic speech from text stored in computer files, designed to provide access to information that would be too expensive or impractical to record using voice technology.
- o Switching. Switching involves routing, transferring and connecting voice signals between multiple chassis.

Research and Product Development

The Company believes that the timely enhancement of its existing products and development of new products is critical to maintain its competitive position. The Company's ongoing product development goals include the enhancement (in terms of performance and cost efficiency) of current products, the adaptation of third-party technologies to Dialogic's products and the development of new product options and features. Dialogic's product development teams work closely with customers in an effort to define necessary improvements and enhancements and to analyze potential new products. Recent major research and development projects which have been announced include the development of the DM3 Mediastream Resource architecture, major initiatives in internet telephony and facsimile and the development of CT Media middleware. Dialogic also uses United States and offshore contract research and development.

No assurance can be given that any of the Company's research and development projects will result in market accepted products or profitable ventures. Like any announcement in the computer telephony industry, each such initiative is subject to a variety of risks, including the length of time required for Dialogic to bring products to market, unanticipated technical problems, patent barriers, competitive responses, customer acceptance, development or manufacturing difficulties, the availability of regulatory approvals, and general market conditions. See "--Products" above.

Dialogic's research and development staff included 517 persons as of December 31, 1998. For the years ended December 31, 1996, 1997 and 1998, research and development expenses amounted to \$40.7 million, \$51.5 million, and \$ 65.4 million respectively, representing 19% of revenues in 1996, 19.7% of revenues in 1997 and 22.3 % of revenues in 1998.

International Business

Dialogic's international market opportunities are defined in significant part by the nature of the telephone networks in particular countries (which affect the types of network interfaces that can be utilized) and a variety of regulatory issues. Regulatory issues affect Dialogic products in several ways. First, there are issues that relate to approvals for Dialogic products. These issues center around the homologation (or approval) process and service offering regulations that affect the ability of the Company's customers to sell their products in particular countries. In certain countries, approvals can be granted at the component level. Such approvals are not dependent upon the particular PC or application being utilized. Accordingly, once such approvals are obtained, specific products can be utilized by customers in the applicable country without further interaction with regulatory officials. Other countries require platform or system level approvals. As of December 31, 1998, Dialogic products had received approvals or are contained in systems approved in more than 60 countries throughout the world. The Company believes that its success in obtaining component, platform or system level approvals constitutes a significant competitive advantage, in that it permits Dialogic's products to be sold in the applicable countries while the products of competitors which have not successfully completed the approval process cannot be sold in those countries. A second set of issues indirectly affect Dialogic by affecting its customers' markets. For example, the regulatory environment for competitive carriers, private networking, international call back or voice over internet services will directly affect customers' ability to sell their products and therefore Dialogic product sales.

In 1996, 1997 and 1998, international sales (excluding exports from North America) accounted for approximately 20%, 21% and 24%, respectively, of the Company's revenues. See Note 9 of the Notes to the Company's Consolidated Financial Statements incorporated by reference herein.

The Company conducts its international operations primarily through foreign subsidiaries. Efforts are made to match product capabilities offered in particular countries with local product needs, networks and infrastructures. In addition to sales and sales support activities, Dialogic's foreign presence includes headquarters operations in Brussels, Singapore and Tokyo and research and development activities in the United Kingdom, Israel, and New Zealand.

International sales are subject to inherent risks, including changes in regulatory and standards requirements, exchange rates, economic conditions, tariffs and other barriers, difficulties in staffing and managing foreign subsidiary operations, political instability, potentially adverse tax consequences and specialized inventory requirements applicable to particular foreign countries. There can be no assurance that these factors will not have an adverse impact on the Company's future international sales or operating results. As the Company expands its international operations, exposure to gains and losses on international currency transactions may increase. Dialogic does not currently engage in international currency hedging transactions. A substantial percentage (but not all) of the Company's international sales have been billed and collected in U.S. dollars.

Sales, Marketing, Customers and Customer Support

Dialogic markets its products primarily to VARs, OEMs, systems integrators, service providers and applications developers. In the United States, Dialogic sells to these customers through its own sales force and distributors, as well as through telemarketing and advertising efforts. Internationally, the Company utilizes its own sales force and selected sales representatives and agents. As of December 31, 1998, the Company had 175 direct sales employees. Increased reliance has been placed on distributors, sales representatives and sales agents in recent periods. Such reliance may subject the Company to the uncertainties that affect the businesses of these independent third-parties.

Dialogic's United States sales personnel are based in various field sales offices, including offices in Arizona, California, Georgia, Illinois, Massachusetts, New Jersey, Texas and Washington. These offices are staffed with individuals that have sales and/or customer support backgrounds. The Company's international sales offices include locations in Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong, India, Ireland, Israel, Italy, Japan, Korea, New Zealand, Singapore and the United Kingdom. These international offices also provide technical support to the Company's international customer base and, in certain instances, perform development activities.

The Company's marketing activities include participation in industry trade shows and seminars, advertising in selected trade publications, public

relations activities with the trade and business press, publication of technical articles and distribution of sales literature and product specifications. The Company's Internet website, <http://www.dialogic.com>, has become an increasingly important vehicle for Dialogic's marketing and customer support functions. As of December 31, 1998, the Company's marketing group consisted of 65 employees.

The Company sold products to more than 2,800 customers during 1998. A total of 65 of these customers represented approximately 50% of Dialogic's revenues, and no customer accounted for 5% or more of revenues in 1998.

The Company believes that customer service and support have been a significant factor in distinguishing the Company from other computer telephony component manufacturers. Given the need to blend signal computing component technology with applications software, it is important for Dialogic to maintain close communication with its customers. This communication enables Dialogic to educate existing and potential customers with respect to the functionality of the Company's product line and new product offerings and enables Dialogic to assess and understand the needs of its customers.

The Company's technical developments are communicated to customers by its sales engineering group, its field applications engineering group, its technical support group, its design group and its website. The Company also furnishes its customers with documentation that provides performance and other data regarding complex systems configurations and alerts customers to the market opportunities available through utilization of Dialogic's products. The Company has begun sponsoring an annual Technology Summit for key customers and partners. The 1998 event, in Fort Lauderdale, Florida, was attended by over 500 people and was cosponsored by Alcatel, Compaq, Ericsson, IBM, Microsoft, SCO and Sun Microsystems. A similar event for customers in the Pacific Rim was held in Bali, and a series of smaller events were held throughout Europe.

Competition

The computer telephony industry is highly competitive. Moreover, the Company believes that competition is likely to intensify in the future. Dialogic believes that its principal competitors are (i) companies that specialize in particular computer telephony functions, (ii) companies that provide a broad range of computer telephony products and (iii) companies, many of which have substantially greater resources than Dialogic, which have chosen to, or which may choose to, produce computer telephony components in-house. Within the second group, Dialogic's principal competitors include Brooktrout Technology, Inc. (which recently purchased Lucent's Computer Telephony Products Division, the former Rhetorex Corp.), Bicom, Inc., Aculab plc, Pika Corp. and Natural Microsystems, Inc. In the future, the Company may also face competition from new market entrants, including those with substantially greater resources and name recognition than Dialogic and industry companies in the third group which elect to supply not only their own needs but to enter the merchant market.

New and enhanced products can be expected from the Company's competitors in the future. The competitive factors in the computer telephony

components industry include the time required to produce a market-ready product, engineering expertise, product quality, reliability and performance, price, brand name awareness, customer support and service and access to distribution channels. The Company believes that it competes or may compete on the basis of the breadth and quality of its product line, its customer service and support, its technical capabilities, its name recognition and price.

While the Company believes that its commitment to open computer telephony architectures positions Dialogic as a "technology enabler" for the computer telephony industry, this commitment may reduce the technical constraints that otherwise would limit the entry of additional competitors to the market and may commoditize Dialogic's market. The Company also faces commoditization risks from software and subsystem vendors.

Proprietary Rights

The Company holds patents covering certain aspects of its technology and has applied for additional patent protection. While Dialogic believes that its technology provides it with certain competitive advantages, there can be no assurance that the Company's competitors will not be able to develop similar technology. Dialogic currently licenses certain technology from third parties and plans to continue to do so in the future as warranted by business conditions. This statement regarding future licensing arrangements constitutes a Forward-Looking Statement. See "--Risk Factors." There can be no assurance that in the future the Company will be able to obtain licenses of intellectual property rights owned by third parties or that such licenses can be obtained on terms favorable to the Company. If the Company is unable to obtain licenses of

protected technology, it could be prohibited from manufacturing and marketing products incorporating that technology. Factors which could affect the Company's ability to maintain such licensing arrangements in the future include the strength of third-parties' patent protections, the willingness of such third-parties to contract with Dialogic, the availability of competing products and technologies, the cost of creating alternative solutions and other competitors' responses.

Dialogic has received from time to time, and may receive in the future, communications from third parties asserting intellectual property rights relating to certain of the Company's products and technologies. To date, most of these claims have been based on application-oriented patents that the Company would not directly infringe. However, application-oriented patents may be used by the holder to restrict the types of markets in which Dialogic or Dialogic's customers are able to compete. Application-oriented patents may also be used to induce customers and potential customers to purchase computer telephony components from competitors of the Company that are affiliated with the holders of such patents.

The Company has received certain claims from holders of application-oriented patents asserting that Dialogic, as opposed to customers using the Company's components to build applications, may violate existing patent rights. There can be no assurance that in the future, other similar claims will not be made against Dialogic. Further, there can be no assurance that the Company will be able to resolve such claims, either by convincing the claimants that the Company's technology is non-infringing, obtaining a license on terms favorable to the Company, redesigning its products or defending any

legal action taken against it. The costs that may be incurred by Dialogic in pursuing any such response could have a material adverse effect upon Dialogic. Should the Company or its customers be found to infringe the proprietary rights of others, the Company could be required to pay substantial damages to the infringed party, which in turn could have a material adverse effect upon Dialogic.

From time to time, the Company considers steps to be taken with respect to outstanding patents prior to any claim being made by the patent holder against Dialogic or its customers. Such steps may include obtaining a license or joining or sponsoring litigation to challenge the validity of an outstanding patent. No assurances can be given that the commencement of any such litigation will not result in counterclaims being made directly or indirectly against the Company.

For information regarding legal proceedings involving Dialogic and Brooktrout Technology, Inc., see "Legal Proceedings".

Manufacturing

The Company utilizes contract manufacturing for substantially all of its manufacturing processes, thereby allowing Dialogic to focus resources on its product development and customer support efforts. During 1998, Dialogic moved an increasing percentage of its manufacturing to a turnkey contract manufacturer, Jabil Circuit, Inc. The Company also employs other suppliers. The activities of these suppliers are coordinated by Dialogic's manufacturing personnel. The Company's internal manufacturing-related operations consist primarily of production of prototypes, test engineering, materials purchasing and inspection, final product configuration and testing, quality control and service repair.

At present, Dialogic does not have a long-term supply contract with any of its manufacturing subcontractors, turnkey manufacturer or component suppliers. Certain key components incorporated in the Company's products (including the digital signal processors used throughout Dialogic's product lines) are supplied by only one source, and others are available from limited sources. To date, Dialogic has been able to obtain supplies of products and components in a timely manner, in part because Dialogic's principal sole source products are acquired from well-established vendors with long-standing relationships with Dialogic. However, in the event that any of its sole source suppliers or contract manufacturers were unable or unwilling to perform, Dialogic's results of operations could be materially affected until the Company establishes alternative sources. The Company owns all of the engineering and sourcing documentation and functional test equipment used in the manufacturing of its principal products and believes that it could shift product assembly to alternate suppliers or in-house if it experienced difficulties with its contract manufacturers. This statement regarding the availability of alternate approaches to contract manufacturing may constitute a Forward Looking Statement.

The Company could be materially adversely affected by several factors, including the demands imposed upon, and the sophistication of, alternate suppliers, the lead time available to such suppliers, unanticipated difficulties in transferring production and market acceptance of the products made by means

of such alternate approaches. Accordingly, actual results could differ materially from the Company's expectations. See "-- Risk Factors."

Subsequent Events

On March 2, 1999, the Company and Microsoft Corporation ("Microsoft") announced that they have entered into a strategic alliance relating to Dialogic's CT server initiative and Dialogic's CT Media for Windows NT middleware product.

Under the terms of a license and development agreement, Microsoft will become a nonexclusive licensee of Dialogic's CT Media for Windows NT middleware product. Dialogic will enter into development activities for Microsoft to create specific applications in the telephony space which will be owned by Microsoft and to provide other support and development services. Under the license and development agreement, Microsoft's payments to Dialogic over the next four years are expected to be \$20 million for the initial licenses for CT Media for Windows NT, the development services and certain support. Microsoft and Dialogic have agreed to work jointly to assure a single code base for CT Media in the future and Dialogic will continue to own CT Media. Microsoft's license to CT Media is subject to certain contractual limitations, and Dialogic will continue to own and remains free to license CT Media.

In a separate transaction, also occurring March 2, 1999, Microsoft agreed, for an aggregate purchase price of \$24.2 million, to acquire 860,681 newly issued shares of Dialogic common stock and a warrant entitling Microsoft to purchase 279,869 shares of Dialogic common stock. The warrant has a term of four years and is exercisable at a price of \$35.19 per share. Both the issued shares and the shares resulting from the exercise of the warrant are subject to a lockup period beginning on the transaction date. During the first year of the lockup period, Microsoft may sell none of the shares, and may only sell 50% of the shares in the second year of the lockup period. Thereafter all shares may be freely sold. On March 2, 1999, Dialogic issued the shares and warrant to Microsoft.

Risk Factors

This Annual Report contains, and Dialogic may make in the future, certain Forward-Looking Statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected in such Forward-Looking Statements. Risks and uncertainties applicable to Dialogic include the following:

Risks Relating to Technological Developments. The market for the Company's products is characterized by rapid technological advances, changes in customer requirements and frequent new product introductions and enhancements. Dialogic's future success will depend upon its ability to (i) enhance its current products, (ii) achieve the objectives of its DM3 Mediastream Resource Architecture, (iii) develop and introduce new products that keep pace with rapid technological developments and evolving industry and regulatory standards, (iv)

respond to changes in customer requirements and (v) achieve market acceptance, including a perception that the open switch model and CT Media represent industry standard platforms to which developers should work. In particular, the Company believes it must continue to respond to customers' needs for broad functionality and multiple platform support. There can be no assurance that Dialogic will be successful in developing and marketing new products or product enhancements on a timely basis or that the Company will not experience significant delays in the introduction of new products. In addition, there can be no assurance that new products or product enhancements developed by the Company will achieve market acceptance. An additional technology risk may result from companies in adjacent fields integrating CT functionality into their products, making it more difficult for the Company to compete, or commoditizing its products. Among other risks are system companies taking increasing portions of manufacture of product in house or DSP or software manufacturers increasing the functionality of their products, thereby commoditizing Dialogic products or eliminating the needs for functionality. Moreover, while the dramatic growth of the Internet and Internet based technologies may provide new opportunities, they are disruptive technologies which may also negatively affect Dialogic customers and the market for Dialogic technologies.

Year 2000. The Year 2000 issue is primarily the result of computer programs or databases using a two-digit format, as opposed to four digits, to represent a calendar year. Some computer systems will be unable to correctly interpret dates beyond the year 1999, which could cause a system failure or other computer errors, leading to a disruption in the operation or accuracy of such systems. The Company has undertaken a company-wide study and testing program to locate and cure any Year 2000 issues in the products or systems on which it relies and in the products it offers for sale or license. The Company believes its internal systems, including both its financial operating (information technology) systems and non-information technology systems are Year 2000 compliant. The Company's financial operating systems have been upgraded to

a Year 2000 compliant release within the context of its normal operating environment. Such upgrade was not accelerated in anticipation of Year 2000 issues. No material additional costs were incurred in upgrading the Company's internal systems. This phase of the Company's Year 2000 study is completed. The Company has been and anticipates continuing to work jointly with strategic vendors and business partners to identify any Year 2000 issues that may impact the Company. The Company anticipates that evaluation and corrective actions, if any, will be on going throughout 1999. To date the Company has not identified any such problems requiring corrective action that will result in a material adverse impact on the Company. However, there can be no assurance that the companies with which the Company does business will achieve Year 2000 compliance in a timely fashion, or that such failure to comply by another company will not have a material adverse effect on the Company. The Company believes the products it currently offers for sale or license are all Year 2000 compliant, and that the cost to remediate any previously sold product that is not Year 2000 compliant will be insignificant.

The Company has and will incur internal staff costs related to this aspect of its initiative. The Company maintains a web site and has responded to many inquiries from customers regarding Year 2000 compliance of its products. These costs are not considered to have a material impact on the Company's operating results and have not been quantified.

Based on the assessment effort to date, the Company does not believe that the Year 2000 issue will have a material adverse effect on its financial

condition, results of operations, or cash flows. This represents a forward-looking statement under the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from the Company's belief and expectations which, are based on certain assumptions and expectations that ultimately may prove to be inaccurate. Potential sources of risk include (a) the inability of principal suppliers to be Year 2000 ready, which could result in delays in product deliveries from such suppliers; (b) disruption of the distribution channel, including transportation vendors; (c) customer problems which could affect revenue demand; and (d) undiscovered issues related to Year 2000 compatibility which could have a material adverse impact. The Company's Year 2000 assessment is ongoing and the consideration of contingency plans will continue to be evaluated as new information becomes available. At this stage, however, the Company has not developed a comprehensive contingency plan to address situations that may result if any of the third parties upon which the Company is dependent is unable to achieve Year 2000 compliance. The need for such a contingency plan will be evaluated throughout 1999.

Competition. The computer telephony industry is highly competitive. Moreover, the Company believes that competition is likely to intensify in the future. In addition, as the Company tries to expand its addressable markets, it directly faces new larger competitors such as telephony equipment manufacturers with far greater resources. For information regarding such competition, see "-- Competition". No assurance can be given that the Company will be able to compete successfully in the future or that price competition will not affect the Company's consolidated results of operations and financial condition.

Fluctuations in Quarterly Operating Results. The Company's total revenues may vary significantly from quarter to quarter due to a variety of factors, including the timing of customer orders, changes in Dialogic's products, geographic and customer mix, the introduction of new products by the Company or its competitors, pricing pressures, regulatory developments, unanticipated development and/or manufacturing difficulties or expenses, and worldwide or regional economic conditions. The Company typically operates with relatively little backlog and substantially all of its revenues in each quarter ordinarily result from orders received in that quarter. In addition, the Company often incurs significant development, sales and marketing expenses in anticipation of future revenues. A shortfall in revenues or earnings from the levels anticipated by analysts could have an adverse impact on the market price of Dialogic's Common Stock.

Uncertainties Relating to Proprietary Matters. For information regarding risks relating to the availability of licenses to the Company and relating to potential intellectual property and related claims by third parties, see "-- Proprietary Rights."

Dependence on Sales by Third Parties. The Company's revenues are dependent upon the ability of its OEM and VAR customers to develop and sell computer telephony systems that incorporate Dialogic's modular components. Factors, including worldwide economic conditions, patent positions, regulatory requirements and other marketing restrictions, that adversely affect the revenues of Dialogic's OEM and VAR customers can have an adverse impact upon the Company's financial results. No assurances can be given that Dialogic's OEM and

VAR customers will not experience financial or other difficulties that will materially and adversely affect their purchases from Dialogic and, in turn, the

results of operations and financial condition of the Company.

Risks Associated with International Operations. International operations are subject to certain risks, including changes in regulatory and standards requirements, exchange rates, worldwide and regional economic and political conditions, tariffs and other barriers, difficulties in staffing and managing foreign subsidiary operations, potentially adverse tax consequences and specialized inventory requirements applicable to particular foreign countries. There can be no assurance that these factors will not have an adverse impact on the Company's future international sales or operating results. A substantial percentage (but not all) of the Company's international sales have been billed and collected in U.S. dollars. As the Company continues to expand its international operations, exposures to gains and losses on international currency transactions may increase. Dialogic does not currently engage in international currency hedging transactions. The Company is unable to predict with accuracy the impact on Dialogic of recent Asian economic problems.

Dependence on Third-Party Suppliers. The Company contracts a large percentage of its manufacturing to a turnkey manufacturer, Jabil Circuit, Inc. Dialogic also employs other domestic manufacturing subcontractors in the manufacture of its remaining production. Certain key components incorporated in the Company's products (including the DSPs used throughout Dialogic's product lines) are supplied by only one source, and others are available from limited sources. The Company does not have a long-term agreement with any of these suppliers of services or components. The Company is currently negotiating a written agreement with Jabil Circuit, Inc. Although the Company has not experienced any material difficulties in obtaining supplies in the past, any reduction or interruption in supply from these third-party contractors could materially and adversely affect Dialogic's results of operations until alternative sources are established. Moreover, operating results could be materially and adversely affected by the receipt of defective components or products, an increase in prices from suppliers or the inability of Dialogic to obtain lower prices in response to competitive price reductions.

Uncertainties Regarding Regulatory Matters. Applications that are enabled by Dialogic's products are affected by governmental policy in each country in which they may be deployed around the world. Modifications to public policy, including, but not limited to, regulation of use of the Internet and restrictions on alternative forms of call completion, may positively or adversely affect Dialogic's business. The Company seeks to obtain regulatory approvals for its products as a means of enabling its customers to bring their systems to market as rapidly as possible. Changes in regulations or in interpretations of regulations or delays in deregulation may substantially hamper end-users and Dialogic's customers and may cause such customers to delay or cancel orders.

Dependence on Key Personnel. The Company depends substantially on key personnel involved in engineering, research and development, marketing, sales, finance and administration. The loss of the services of key persons in any functional area could have a material adverse effect on Dialogic's current operations and on new product development efforts. Dialogic's success depends upon its ability to attract and retain skilled employees. Its success also depends upon the ability of Dialogic's officers and key employees to manage

growth successfully and to continue successful development of product enhancements and new products. There can be no assurance that the Company will be able to hire or retain sufficient qualified staff to meet its goals. The Company does not maintain key-person life insurance for any of its personnel.

Risks Associated with Potential Acquisitions. The Company's business strategy contemplates that Dialogic will continue to seek to complement its internal growth with additional acquisitions of and investments in businesses in the computer telephony industry and related fields. Although management expects to carefully analyze any such opportunity before committing the Company's resources, there can be no assurance that such transactions will result in long-term benefits to Dialogic or that unanticipated liabilities may not arise with respect to acquired entities.

Excess or Obsolete Inventory. Dialogic's customers typically expect delivery of the Company's hardware and software products from stock. Because the manufacturing lead-time for several of Dialogic's products can be significant, the Company builds its products to meet forecasted demand. Although a portion of customer demand is ascertainable from volume purchase arrangements, the Company's forecasts also depend upon management's estimates of sales to existing and potential customers. Several factors could affect the accuracy of such estimates, including unanticipated changes in customer demand, new developments in the computer telephony industry, unanticipated development delays and competitive inroads into the Company's business. Should management's predictions prove to be inaccurate, the Company could have excess or obsolete inventory.

Volatility of Stock Price. The market price of Dialogic's Common Stock has fluctuated significantly since its initial public offering in April 1994. Factors such as: announcements of technological innovations or new products by

Dialogic, its competitors or other third parties; consolidations within the computer telephone industry; quarterly variations in the Company's consolidated results of operations, shortfalls in the Company's revenues, gross margins or earnings relative to analysts' expectations; regulatory conditions; worldwide economic conditions; capital market conditions; and general industry conditions may all affect the market price of the Common Stock and cause it to fluctuate significantly. In addition, in recent years, the stock market in general, as well as the market prices of the stocks of many high technology companies in particular, have experienced wide fluctuations which have not necessarily been related to the operating performance of individual companies. There can be no assurance that the market price of the Company's Common Stock will not continue to experience significant volatility.

Backlog

Because the Company's products are typically shipped within one month of receipt of the order, the Company does not believe that its backlog as of any particular date is indicative of future sales levels.

Employees

As of December 31, 1998, the Company had 1,247 full-time employees. The Company's continued success will depend in part upon its ability to attract and retain skilled employees. Dialogic has never had a work stoppage and no employees are represented by a labor organization. The Company considers its employee relations to be good.

Environmental Factors

Federal, state and local laws or regulations which have been enacted or adopted regulating the discharge of materials into the environment have not had, and under present conditions the Company does not foresee that they will have, a material adverse effect on capital expenditures, earnings, or the competitive position of the Company.

Item 2. Properties

The Company's corporate headquarters are located in Parsippany, New Jersey, in two leased facilities which cover approximately 262,000 square feet of space. There are two separate leases for the facilities. The primary lease covers 220,000 square feet and expires in 2005, with options to renew for two subsequent five-year terms. The first lease was amended to provide for the construction of a 67,000 square foot addition to the existing building. The construction of this addition is scheduled to be completed by December 1999. The second lease covers 19,000 square feet and expires in 2002, with options to renew for two subsequent three-year terms. The second lease was amended to cover an additional 23,000 square feet. The amendment covering this additional space expires in 2005 with an option to renew for one subsequent three-year term. The Company also leases all of its domestic and foreign offices. See Note 8 of the Notes to the Company's Consolidated Financial Statements incorporated by reference herein.

Item 3. Legal Proceedings

In June 1995, the Company entered into a settlement agreement that resulted in the dismissal of various legal proceedings involving, among others, the Company and Brooktrout Technology, Inc. ("Brooktrout"). In November 1995, Brooktrout filed a complaint in the United States District Court for the District of Massachusetts naming the Company, its GammaLink subsidiary (since merged into the Company) and its Chairman of the Board as defendants. The complaint sought to rescind the settlement agreement and obtain unspecified

compensatory and punitive damages on the basis of allegations that the defendants fraudulently induced Brooktrout to enter into the settlement agreement. Dialogic denied the claims as baseless, moved to dismiss and filed a counterclaim. In December 1996, the District Court entered an order of summary judgment against Brooktrout dismissing its fraud claims. Subsequently Brooktrout amended its complaint to add a claim for breach of the implied duty of good faith and fair dealing. On February 9, 1999, the parties reached a settlement in this litigation in which Brooktrout dismissed all remaining claims against Dialogic and its chairman with prejudice, Brooktrout granted certain additional patent rights to Dialogic, and Dialogic dismissed its counterclaim against Brooktrout with prejudice. Neither Dialogic nor its chairman made any payment to Brooktrout in this matter.

Separately, the Company's Spectron subsidiary had sued Brooktrout for patent infringement. This case was transferred to the District of Massachusetts. Dialogic believes it has retained the rights to maintain this lawsuit despite the February 1998 sale of the Spectron assets. Brooktrout has moved to dismiss this case claiming that Dialogic no longer has standing to enforce the patents.

Trial in this case is now scheduled for June 1999.

During the third quarter of 1996, a complaint was filed in New Jersey Superior Court against the Company and certain of its directors alleging that the defendants breached principles of common law fraud in connection with certain public statements made prior to the Company's July 8, 1996, press release announcing preliminary results for the quarter ended June 30, 1996. The complaint sought monetary damages on behalf of a purported class of purchasers of the Company's Common Stock. On February 18, 1998, on motion by the defendants, the complaint was dismissed by the court with prejudice. Time to appeal the dismissal has expired.

The Company is also engaged in other legal proceedings arising in the ordinary course of business, the results of which proceedings are not expected to have a material adverse effect on the Company's consolidated financial condition, results of operations or liquidity. Management intends to defend each of the above-mentioned legal proceedings vigorously.

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

Not applicable.

Item 4A. Executive Officers of the Registrant

The Company's executive officers, their respective ages (as of January 31, 1999) and their positions with the Company are set forth below:

Name	Age	Title
Nicholas Zwick	46	Chairman of the Board
Howard G. Bubb	44	President and Chief Executive Officer; Director
John G. Alfieri	39	President, the Americas
Thomas G. Amato	53	Vice President, Chief Financial Officer and Treasurer
Kenneth J. Burkhardt, Jr.	53	Executive Vice President, New Business Development; Director
William Warner	54	Executive Vice President, Signal Computing Products
Charles House	58	Executive Vice President, Core-Systems Development
Steve Krupinski	45	Vice President, Human Resources
John E. Landau	45	Vice President, Product Marketing
Gary Marks	41	Vice President, Corporate Marketing
Theodore M. Weitz	52	Vice President, General Counsel and Secretary
Jean M. Beadle	48	Chief Accounting Officer and Controller

Mr. Zwick, a co-founder of the Company, has been a Director of the Company since Dialogic's inception in 1983, its President and Chief Executive Officer from 1985 to May 1993 and its Chairman of the Board since March 1993.

Mr. Bubb joined the Company as an Executive Vice President in July 1991. In August 1992, Mr. Bubb was promoted to Chief Operating Officer. In June 1993, he was promoted again to President and Chief Executive Officer. Prior to joining the Company, Mr. Bubb was a consultant from February 1991 to July 1991 and Senior Vice President and General Manager of Lexar Business Systems, a marketer of PBX products and an affiliate of Telenova, Inc., from December 1989 to January 1991. He served as Vice President of the telecommunications business of Memorex Telex, N.V. from January 1986 to December 1989. Mr. Bubb is currently on the Board of Directors of Pairgain Technologies, Inc.

Mr. Alfieri was named President, The Americas in June 1998. He has been employed by the Company since 1988, first as the Eastern Regional Manager, then (in 1990) as Manager of North American Sales and (in 1993) as Vice President, Sales and Services, the Americas. Prior to joining Dialogic, Mr. Alfieri held various sales and marketing positions within IBM from 1983 to 1988.

Mr. Amato was hired by Dialogic as its Vice President, Chief Financial Officer and Treasurer in April of 1997. Prior to joining Dialogic, he served as Senior Vice President and Chief Financial Officer of Symbol Technologies, Inc., from 1990 to 1997. From 1979 to 1990 he served as Senior Vice President, Finance and Administration of Amcast Industrial Corporation. From 1971-1979, Mr. Amato held various financial positions with Rockwell International Corporation.

Dr. Burkhardt, a co-founder of the Company, served as the Executive Vice President of Operations of the Company through October 1992, when he assumed his current position as Executive Vice President of New Business Development. He has been a Director of the Company since 1983.

Mr. Warner was hired by Dialogic as Executive Vice President, Signal Computing Products, in September of 1998. Prior to joining Dialogic, he served as Senior Vice President, Product Management and Development, at Banyan Systems, Inc. from 1997 until 1998. From 1996 to 1997, Mr. Warner was Vice President and General Manager, Platform Software Business, at SystemSoft Corporation. From 1969 to 1996, Mr. Warner held various positions at IBM Corp., including Vice President, Systems Management.

Mr. House was named Executive Vice President of Core Systems Development in February 1998. He has been employed by the Company since December of 1995 as Vice President and General Manager for Spectron Microsystems, Inc. Prior to joining Dialogic, he served as Senior Vice President and General Manager of Veritas Software from 1993 to 1995 and Senior Vice President for Product Management and Development at Informix Software from 1991 to 1993. From 1962 to 1991, Mr. House held various management positions at Hewlett-Packard including General Manager at both the Software Engineering Systems Division and Logic Systems Operation. Mr. House is currently on the Board of Directors of Applied Microsystems, Incorporated.

Mr. Krupinski was named Vice President, Human Resources in January 1998. Prior to joining Dialogic, he served as Vice President, Human Resources for Dun & Bradstreet from 1992 to 1998. From 1988 to 1992, Mr. Krupinski was Assistant Vice President, Human Resources for Crum & Forster Personal Insurance Co. Between 1979 to 1988, Mr. Krupinski held various Human Resources management positions with Engelhard Corporation, AT&T Corp. and Allstate Insurance Company.

Mr. Landau was named Vice President, Product Marketing in February 1999. He was previously Vice President, Strategic Marketing of the Company from 1997 until 1999, Vice President and General Manager, Dialogic Architecture Labs, from 1995 until 1997 and Vice President, Marketing of the Company from February 1993 until 1995. Mr. Landau was an area sales manager for Dialogic from May 1988 until February 1989. From February 1989 to 1990, he was the Director of Marketing at Benchmark Microelectronics (a semiconductor manufacturer) and from 1990 until he rejoined Dialogic in February 1993, Mr. Landau was Vice President, Marketing at Benchmark Microelectronics. From November 1983 until May 1988, he held various marketing positions at Advanced Micro Devices (a semiconductor manufacturer) and from June 1978 until November 1983, he held various operations and product marketing responsibilities at Mostek Corporation (a semiconductor manufacturer).

Mr. Marks joined Dialogic in August 1998 as Vice President, Corporate Marketing. Prior to joining Dialogic, he served as Executive Vice President of

Marketing for SyQuest Technologies, Inc. from 1996 to 1998. From 1994 to 1996, Mr. Marks was Vice President of Marketing for Conner Peripherals. From 1987 to 1994, Mr. Marks was Vice President of Marketing at Western Digital Corp.

Mr. Weitz joined the Company in January 1997 as its General Counsel and was named a Vice President and Secretary in February 1997. Prior to joining the Company, he served in senior counsel positions for Lucent Technologies Inc. in 1996, for AT&T from 1993 to 1996, for UNIX System Laboratories and Novell, Inc. from 1991 to 1993 and for various AT&T affiliates from 1978 to 1991.

Ms. Beadle joined Dialogic in March of 1997 as Controller and was named Chief Accounting Officer in February of 1998. Prior to joining the Company, she was employed at Dynatech Corporation as Director of Finance from 1995 to 1997, as Director of Taxation from 1990 to 1995 and as an Assistant Corporate Controller from 1985 to 1990. From 1972 to 1985, Ms. Beadle held various financial positions at General Electric Corporation and Metcalf & Eddy Engineering, Inc.

Executive officers of the Company are appointed by the Board of Directors on an annual basis and serve until their successors have been duly elected and qualified. There are no family relationships among any of the executive officers or directors of the Company.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder

Matters

The registrant incorporates by reference herein information set forth in its Annual Report to Shareholders for the year ended December 31, 1998, that is responsive to the information required with respect to this Item.

Item 6. Selected Financial Data

The registrant incorporates by reference herein information set forth in its Annual Report to Shareholders for the year ended December 31, 1998, that is responsive to the information required with respect to this Item.

Item 7. Management's Discussion and Analysis of Dialogic's Financial Condition and Results of Operations

The registrant incorporates by reference herein information set forth in its Annual Report to Shareholders for the year ended December 31, 1998, that is responsive to the information required with respect to this Item.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk.

The Company was not a party to any agreements involving derivative financial instruments at December 31, 1998. The Company's primary market risk exposures are in the areas of interest rate risk and foreign currency exchange rate risk. The Company's investment portfolio of cash equivalents is subject to interest rate fluctuations, but the Company believes this risk is immaterial due to the short-term nature of these investments. The Company's investment portfolio of marketable debt securities is comprised primarily of fixed rate municipal bonds. The Company has classified all of these securities as available-for-sale, which reduces income statement exposure to interest rate risk. The Company mitigates risk in its investment portfolios by placing its investments with high-quality issuers it believes are credit worthy. The Company's exposure to foreign currency exchange rate fluctuations has historically been modest. The majority of the Company's revenue and receivables are denominated in US dollars. Based on the foreign currency exposure of nonfunctional currency denominated receivables and payables at December 31, 1998, a 10% adverse change in currency rates would not materially affect the Company's financial position, results of operations, or cash flows. As the Company continues to expand its presence internationally, there can be no assurance that foreign currency exposures will remain insignificant.

Item 8. Financial Statements and Supplementary Data

The registrant incorporates by reference herein information set forth in its Annual Report to Shareholders for the year ended December 31, 1998, that is responsive to the information required with respect to this Item.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

PART III

Item 10. Directors of the Registrant

The registrant incorporates by reference herein information set forth in its definitive proxy statement for its 1999 annual meeting of shareholders that is responsive to the information required with respect to this Item.

Item 11. Executive Compensation

The registrant incorporates by reference herein information set forth in its definitive proxy statement for its 1999 annual meeting of shareholders that is responsive to the information required with respect to this Item.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The registrant incorporates by reference herein information set forth in its definitive proxy statement for its 1999 annual meeting of shareholders that is responsive to the information required with respect to this Item.

Item 13. Certain Relationships and Related Transactions

The registrant incorporates by reference herein information set forth in its definitive proxy statement for its 1999 annual meeting of shareholders that is responsive to the information required with respect to this Item.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) The following financial statements and related report are incorporated by reference into Item 8 of this Annual Report on Form 10-K (page references are to the Company's Annual Report to Shareholders for the year ended December 31, 1998):

	Page
Independent Auditors' Report.....	10
Consolidated Balance Sheets as of December 31, 1997 and 1998.....	11
Consolidated Statements of Income for the Years Ended December 31, 1996, 1997 and 1998.....	12
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 1996, 1997 and 1998.....	12
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 1996, 1997 and 1998.....	13
Consolidated Statements of Cash Flows for the Years Ended December 31, 1996, 1997 and 1998.....	14
Notes to Consolidated Financial Statements.....	15

(b) The following financial statement schedule is filed as part of this Annual Report:

Schedule	Description	Page
I	Independent Auditors' Report	S-1
II	Valuation and Qualifying Accounts	S-2

All other schedules have been omitted because they are not applicable or the required information is included in the financial statements or notes thereto.

(c) The following exhibits are incorporated by reference herein or annexed to this Annual Report:

Exhibit	Description
3.1	Restated Certificate of Incorporation is incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 (No. 33-59598).
3.2	By-laws, as amended, are incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form S-1 (No. 33-59598).
10.1	1988 Incentive Compensation Plan, as amended and restated through March 28, 1997 (the "1988 Plan") is incorporated by reference to Exhibit 10.2 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996.
10.2	Proposed amendments to the 1988 Plan as amended are incorporated by reference to Exhibit 10.3 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996.
10.3	1993 Non-Employee Director Stock Option Plan (the "1993 Plan") is incorporated by reference to Exhibit 10.4 of the Registrant's Registration Statement on Form S-1 (No. 33-59598).
10.4	Amended and Restated 1993 Plan is incorporated by reference to Exhibit 10.5 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996.
10.5	1997 Director Stock Election/Deferral Plan is incorporated by reference to Exhibit 10.6 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996.
10.6	Employment Agreement between the Registrant and Howard G. Bubb, as amended is incorporated by reference to Exhibit 10.6 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997.
10.7	Registrant's loan agreements, as amended is incorporated by reference to Exhibit 10.7 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997
10.8	Registrant's headquarters lease, dated August 31, 1993, as amended, is incorporated by reference to Exhibit 10.9

to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996.

- 10.9 Sixth Amendment to headquarters lease November 21, 1997 is incorporated by reference to Exhibit 10.9 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997.
- 10.10 Seventh Amendment to headquarters lease dated as of September 30, 1998
- 10.11 Lease dated as of September 30, 1998 for the annex to the headquarters
- 10.12 Amended and Restated 1997 Incentive Benefit Plan, amended and restated through February 22, 1999.
- 10.13 Asset Purchase Agreement, by and among the Registrant, Texas Instruments Incorporated and Spectron Microsystems, Incorporated, dated as of January 22, 1998 is incorporated by reference to Exhibit 10.11 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997.
- 10.14 Stock Purchase Agreement dated as of March 1, 1999 between the Registrant and Microsoft Corporation.
- 11.1 Calculation of Income Per Share.
- 13.1 Incorporated portions of the Annual Report to Shareholders for the year ended December 31, 1998.
- 21.1 Principal subsidiaries of the Registrant.
- 23.1 Independent Auditors' Consent.
- 24.1 Power of Attorney.
- 27.1 Financial Data Schedule.

(d) During the quarter ended December 31, 1998, the Company did not file any Current Reports on Form 8-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, this 26th day of March, 1999.

DIALOGIC CORPORATION
By: /s/ Thomas G. Amato

Thomas G. Amato, Vice President,
Chief Financial Officer and Treasurer

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

Signatures	Title	Date
/s/Howard G. Bubb* Howard G. Bubb	President, Chief Executive Officer and Director	March 26, 1999
/s/Nicholas Zwick* Nicholas Zwick	Director	March 26, 1999
/s/Kenneth J. Burkhardt, Jr.* Kenneth J. Burkhardt, Jr.	Director	March 26, 1999
/s/ Thomas G. Amato Thomas G. Amato	Vice President, Chief Financial Officer and Treasurer	March 26, 1999
/s/ Jean M. Beadle	Chief Accounting Officer	

Jean M. Beadle	and Controller	March 26, 1999
/s/Masao Konomi*	Director	March 26, 1999
Masao Konomi		
/s/John N. Lemasters*	Director	March 26, 1999
John N. Lemasters		
/s/Francis G. Rodgers*	Director	March 26, 1999
Francis G. Rodgers		
/s/James J. Shinn*	Director	March 26, 1999
James J. Shinn		

* By /s/Theodore M. Weitz*

Theodore M. Weitz Attorney in Fact

S-1

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
of Dialogic Corporation
Parsippany, New Jersey

We have audited the consolidated financial statements of Dialogic Corporation and Subsidiaries as of December 31, 1998 and 1997, and for each of the three years in the period ended December 31, 1998, and have issued our report thereon dated January 27, 1999 (except for Note 10, as to which this date is March 2, 1999); such financial statements and report are included in your 1998 Annual Report to Shareholders and are incorporated herein by reference. Our audits also included the financial statement schedule of Dialogic Corporation, listed in Item 14. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Parsippany, New Jersey
March 2, 1999

<TABLE>

S-2

SCHEDULE II - Valuation and Qualifying Accounts
(Dollars in thousands)

<CAPTION>

	Column A	Column B	Column C	Column D	Column E	
<S>	<C>	<C> Balance at beginning of year	<C> Charged to costs and expenses	<C> Charged to other accounts	<C> Deductions(1)	<C> Balance at end of year
Description						
	Allowance for Doubtful Accounts					
December 31, 1996		894	724	57	846	829
December 31, 1997		829	1,272	(27)	794	1,280
December 31, 1998		1,280	1,483	1	893	1,871

(1) Amounts represent write-offs of accounts receivable deemed uncollectible.

</TABLE>

EXHIBIT INDEX

EXHIBIT

DESCRIPTION

10.10	Seventh Amendment to headquarters lease dated September 30, 1998.
-------	---

10.11 Lease dated September 30, 1998 with respect to
the annex to the headquarters

10.13 Amended and Restated 1997 Incentive Benefit Plan
amended and restated through February 22, 1999.

10.14 Stock Purchase Agreement dated as of March 1, 1999
between the Registrant and Microsoft Corporation.

11.1 Calculation of Income Per Share

13.1 Incorporated portions of the Annual Report to
Shareholders for the Year ended December 31, 1998

21.1 Subsidiaries of the Registrant

23.1 Independent Auditors' Consent

24.1 Power of Attorney

27.1 Financial Data Schedule

EXHIBIT 10.10

SEVENTH AMENDMENT TO LEASE AGREEMENT

THIS SEVENTH AMENDMENT TO LEASE AGREEMENT (this "Seventh Amendment") made as of the 30th day of September, 1998, by and between THE MUTUAL LIFE INSURANCE COMPANY OF NEW YORK, having an address at 1740 Broadway, New York, New York 10019 (the "Landlord") and DIALOGIC CORPORATION, a New Jersey corporation, with offices and a principal place of business at 1515 Route 10, Parsippany, New Jersey 07054 (the "Tenant").

W I T N E S S E T H:

WHEREAS, pursuant to that certain Lease dated August, 1993, between Landlord and Tenant, as amended by (i) that certain Second Amendment to Lease Agreement dated January 20, 1994 (a proposed first amendment was not entered into), (ii) that certain Third Amendment to Lease Agreement dated July 19, 1994, (iii) that certain Fourth Amendment to Lease Agreement dated December 20, 1994, (iv) that certain Fifth Amendment to Lease Agreement dated May 6, 1996, and (v) that certain Sixth Amendment to Lease Agreement dated November 21, 1997 (such lease, as amended, being referred to herein as the "Lease"), Tenant leased from Landlord all of the premises (the "Premises") within the building located at 1515 Route 10, Parsippany, New Jersey (the "Building");

WHEREAS, the term of the Lease expires on June 14, 2005;

WHEREAS, Landlord and Tenant are entering into a Lease dated the date hereof (the "New Lease") pursuant to which Landlord will demise to Tenant, and Tenant will lease from Landlord, certain premises (the "New Premises") consisting of the entire building to be constructed next to the Building (the "New Building");

WHEREAS, the term of the New Lease expires at 12:00 Noon on the last day of the month in which the 10th anniversary of the commencement date of the New Lease occurs (the "New Lease Expiration Date");

WHEREAS, Landlord and Tenant desire to extend the term of the Lease to be coterminous with the New Lease, and to amend other provisions of the Lease in the manner and to the extent hereinafter set forth; and

WHEREAS, capitalized terms used herein but not otherwise defined herein shall have the meaning given to them in the Lease.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree that the Lease is hereby amended as follows:

1. Notwithstanding the provisions of Section 2.2 of the Lease, from and after the date hereof, the term "Expiration Date" as used in the Lease shall mean the date the initial term of the New Lease expires pursuant to Section 2.2 thereof, which date is the last day of the month in which the 10th anniversary of the Commencement Date (as such term is defined in the New Lease) of the New Lease.

2. (a) Commencing on June 15, 2005, and continuing through the Expiration Date (as hereinabove amended), the Fixed Rent payable under the Lease with respect to the Premises shall be \$20.13 per rentable square foot per annum for the portions of the Premises located on the first through third floors of the Building, and \$4.00 per square foot per annum for the portions of the Premises located within the basement of the Building.

(b) All Rent payable hereunder shall be governed by and paid in accordance with the provisions of Section 3 of the Lease (excluding Section 3.2).

3. Section 2.5 of the Lease is hereby deleted in its entirety and replaced with the following:

"2.5 Tenant shall have two (2) options to renew the Term for the Premises, each for a period of five (5) years. Each option shall be properly exercised by Tenant only if (a) Tenant delivers written notice of such exercise prior to the date which is one year prior to the Expiration Date (as same may be extended by the first option), time being of the essence with respect to such exercise, or (b) as of the date Tenant exercises the option and on the date immediately prior to the option term, this Lease shall not have been previously terminated or cancelled nor shall any breach or default by Tenant of any of its obligations under this Lease be continuing. The Fixed Rent to be paid during each option period shall be determined in accordance with Section 4 of the Seventh Amendment.

4. The Fixed Rent to be paid for the first option period referred to in Paragraph 3 shall be \$23.15 per rentable square foot per annum for the portions of the Premises located on the first through third floors of the Building, and \$4.60 per square foot per annum for the portions of the Premises located within the basement of the Building. The Fixed Rent for the second option period referred to in Section 2.5 shall be the greater of (i) \$23.15 per rentable square foot per annum for the portions of the Premises located on the first through third floors of the Building, and \$4.60 per square foot per annum for the portions of the Premises located within the basement of the Building, and (ii) 95% of the fair market rent, as determined in the same manner as such fair market rent is determined pursuant to Section 3.1(c) of the New Lease.

5. Sections 8.1 and 8.2 of the Lease are hereby deleted in their entirety and the following is substituted therefor:

"8.1. Landlord, at its expense, shall keep, maintain and repair in good condition the HVAC, exterior walls (including, but not limited to, preventing water leaks) and windows, roof, structural elements and building systems of the Building and the parking areas and landscaping on the Property. The cost of performing such maintenance and repairs shall be included in Operating Expenses to the extent permitted pursuant to Section 4.2 hereof. Notwithstanding anything to the contrary set forth in this Section 8.1, Tenant (and not Landlord) shall be responsible for the maintenance of the items listed in this Section 8.1 to the extent any repairs arise out of the fault or negligence of Tenant.

8.2. Tenant shall, throughout the Term, take good care of and maintain the Premises and the fixtures and appurtenances therein, and shall make all repairs and replacements, as and when needed to preserve the Premises in good working order and condition except for those portions of the Premises which are Landlord's responsibility as set forth in Section 8.1 above. All damage or injury to the Premises or to any other part of the Building, or to its grounds, fixtures, equipment, systems and appurtenances, whether requiring structural or nonstructural repairs, caused by or resulting from any carelessness, act, omission, negligent or improper conduct of Tenant, Tenant's servants, employees, contractors, agents, invitees or licensees, or by the use or manner of use of the Premises by Tenant or any such person, shall be repaired promptly by Tenant at its sole cost and expense, to the reasonable satisfaction of Landlord. Tenant shall also repair all damage to the Building and to the Premises caused by the moving of Tenant's fixtures, furniture, or equipment into or out of the Premises or the installation thereof. All such repairs shall be of quality and class equal to the Initial Tenant Improvements. If Tenant fails after ten (10) days' notice to proceed with due diligence to make any repairs required to be made by Tenant (except in an emergency, wherein Landlord may proceed immediately if Tenant does not immediately proceed to repair), such repairs may be made by Landlord at the expense of Tenant and the costs and expenses thereof incurred by Landlord shall be collectible as Additional Rent on the date on which the next installment of Fixed Rent is due hereunder following delivery by Landlord of an invoice therefor."

6. Section 27.1 of the Lease is hereby deleted in its entirety and replaced with the following:

"27.1 Tenant will be provided with parking in accordance with the Plan titled "Site Plan Dialogic, Inc." prepared by Michael

B. McNally, dated February, 1998, (and last revised on August 17, 1998), consisting of 16 pages, and referenced as Project Number 97041, a copy of which has been delivered to Tenant. Landlord shall provide Tenant with parking for no less than 3.8 cars per 1,000 rentable square feet of Tenant's office space. No other tenant of the Building shall have a right to a greater ratio of parking spaces per rentable square feet."

7. In addition to the Events of Default set forth in Section 13 of the Lease, it shall be an Event of Default under the Lease if any Event of Default occurs under the New Lease, subject to any applicable cure periods set forth in the New Lease.

8. Landlord and Tenant each represent and warrant to each other that neither of them has employed or dealt with any broker, agent or finder in carrying on the negotiations relating to this Lease, other than Insignia/ESG (the "Broker"). Landlord and Tenant shall indemnify and hold each other harmless from and against any claim or claims for brokerage or other commissions asserted by any broker, agent or finder engaged by Landlord or Tenant or with whom Landlord or Tenant has dealt other than the aforesaid Broker. This provision shall survive the expiration or earlier termination of the Lease, but shall not be deemed for the benefit of any third party. Landlord agrees to pay any commission due to the Broker.

9. Except as amended herein, all others terms and provisions of the Lease shall remain in full force and effect.

10. This Seventh Amendment shall be governed by and construed in accordance with the laws of the State of New Jersey.

11. This Seventh Amendment embodies and constitutes the entire understanding between the parties with respect to the subject matter hereof and all prior agreements, representations and statements oral or written relating to the subject matter hereof are merged into this Seventh Amendment.

12. Neither this Seventh Amendment nor any provision contained herein may be amended, modified or extended except by an instrument signed by the party against whom enforcement of such amendment, modification or extension is sought.

IN WITNESS WHEREOF, this Amendment has been executed by the parties hereto as of the day and year first written above.

THE MUTUAL LIFE INSURANCE COMPANY OF NEW YORK

By:/s/ _____
Name:
Title:

DIALOGIC CORPORATION

By: /s/ _____

Name:

Title:

EXHIBIT 10.11

LEASE

THIS LEASE, made as of this 30th day of September, 1998, by and between THE MUTUAL LIFE INSURANCE COMPANY OF NEW YORK, having an address of 1740 Broadway, New York, New York 10019 (the "Landlord") and DIALOGIC CORPORATION, a New Jersey corporation with offices and a principal place of business which will be located at 1515 Route 10, Parsippany, New Jersey 07054 (the "Tenant").

W I T N E S S E T H :

WHEREAS, Landlord is the owner of the real property located at 1515 Route Ten, Parsippany, New Jersey (the "Property") as more fully described on the legal description set forth on Exhibit A annexed hereto;

WHEREAS, Landlord currently leases to Tenant all of the existing building located on the Property (the "Existing Building") pursuant to that certain lease dated August 31, 1993 as amended by those certain amendments dated January 1, 1994, January 20, 1994, July 19, 1994, December 20, 1994, April 15, 1996, November 21, 1997 and September 30, 1998 (the lease as amended, the "Existing Lease");

WHEREAS, Tenant has requested and Landlord has agreed to construct a new three-story building containing approximately 67,000 rentable square feet to be located next to the Existing Building (the "Building"); and

WHEREAS, Tenant wishes to lease from Landlord and Landlord wishes to lease to Tenant the entire Building pursuant to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth, and for other good and valuable consideration, the receipt of which is hereby acknowledged, Landlord and Tenant agree as follows:

1. Premises.

1.1. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord all of the space in the Building which shall be approximately 67,000 square feet (the "Premises"), together with the right to parking as designated herein, the common area right designated herein, right of ingress and egress to the Building in common with others. Within thirty (30) days after the Commencement Date, Landlord shall cause the Premises to be measured pursuant to the BOMA method and the exact square footage shall be deemed fixed in accordance with such measurements with an "add-on factor" in accordance with the BOMA

method. Promptly thereafter, Landlord shall cause to be delivered to Tenant the dimensions of the Building and the Premises as measured pursuant to the BOMA method.

2. Term.

2.1 The Premises are leased for a term ("Term") which shall commence on a date ("Commencement Date") which shall be the earlier of:

(a) the date the Premises are substantially completed in accordance with Section 6.5 and possession of the Premises has been delivered to Tenant; or

(b) the date Tenant shall occupy the Premises or any part thereof for the purpose of conducting its business.

2.2. The Term shall end at 12 o'clock noon on the last day of the month in which the 10th anniversary of the Commencement Date occurs ("Expiration Date"), unless the Term shall sooner terminate pursuant to any of the terms, covenants or conditions of this Lease or pursuant to law.

2.3. As soon as practicable after the Commencement Date, Landlord shall deliver to Tenant written notice confirming the Commencement Date and Expiration Date, and Tenant shall acknowledge such Commencement Date and Expiration Date by returning to Landlord an executed copy of such notice within five (5) business days of Tenant's receipt of such notice.

2.4. If the last day of the Term of this Lease or any renewal thereof falls on a Sunday, this Lease shall expire at 12 o'clock noon on the preceding Saturday unless it be a legal holiday in which case it shall expire at 12 o'clock noon on the preceding business day.

2.5. Tenant shall have two (2) options to renew the Term for the Premises, each for a period of five (5) years. Each option shall be properly exercised by Tenant only if (a) Tenant delivers written notice of such exercise one year prior to the Expiration Date, as same may be extended, time being of the essence with respect to such exercise, (b) as of the date Tenant exercises the option and on the date immediately prior to the option term, this Lease shall not have been previously terminated or cancelled nor shall any breach or default by Tenant of any of its obligations under this Lease be continuing, and (c) Tenant exercises its option in the Existing Lease to extend the term thereof, so that the option term of the Existing Lease and the option term as

provided under this Section 2.5 shall be coterminous. The Fixed Rent to be paid during each option period shall be determined in accordance with Section 3.1(b) hereof.

3. Rent.

3.1. (a) Fixed Rent. Tenant shall pay to Landlord an annual base rent (the "Fixed Rent") for the Premises, which shall be paid without set-off or deduction, in equal monthly installments in advance on the first day of each and

every calendar month during the Term of this Lease, to Landlord or to Landlord's agent, at such place as Landlord may designate to Tenant, in lawful money of the United States of America for the payment of all debts, public and private, as follows:

Lease Years	Rent Per Square Foot
Years 1 and 2	\$23.50
Years 3 and 4	\$25.00
Years 5 and 6	\$26.50
Years 7-8	\$28.00

Year 9 - Expiration Date \$29.50, plus Tenant's electric pursuant to Section 4.13. The first installment of Fixed Rent (prorated, if necessary) shall be paid on the Commencement Date.

(b) The Fixed Rent to be paid for the first option period and the second option period referred to in Section 2.5 shall be the greater of (i) the average of the Fixed Rent paid by Tenant for the 5 preceding years immediately prior to the applicable option period, and (ii) 95% of the fair market rent, as hereinafter determined.

(c) In the event that Landlord and Tenant have not agreed upon the fair market rent for the Premises prior to the date which is ten (10) months before the commencement of the option period, such value shall be determined by arbitration in the following manner:

(i) Landlord and Tenant shall have ten (10) days within which to select, with reasonable cooperation and good faith, one mutually agreeable arbitrator. If Landlord and Tenant fail to agree on one arbitrator within the ten (10) day period, either party may promptly request the president of the local chapter of the American Institute of Appraisers to appoint an arbitrator for the matter, and said president's selection shall be binding upon Landlord and Tenant. Said president shall appoint as an arbitrator an individual with the following qualifications: a licensed MAI real estate appraiser having at least ten (10) years experience, generally recognized competence in valuing offices leases in the Township of Parsippany, New Jersey, and who has never been a direct or indirect employee, agent or affiliate of either Landlord or Tenant or any of their affiliates;

(ii) Landlord and Tenant shall each submit to the arbitrator, in writing, its good faith determination of the fair rental value of the Premises;

(iii) The arbitrator selected must choose either Landlord's or Tenant's good faith determination of the fair rental value of the Premises and the arbitrator's choice shall be final and binding upon the parties. In determining the fair rental value of the Premises and which of Landlord's or Tenant's determinations to select, the arbitrator shall consider all relevant

factors, including without limitation, the length of the renewal term, the size and credit worthiness of Tenant, the size, age, condition and location of the Premises and the Building, concessions, abatements and allowances and Tenant improvements. From the date of appointment, the arbitrator shall have thirty (30) days within which to render a decision as to the fair rental value of the Premises. If the arbitrator fails to render a decision within the applicable 30-day period, either party shall have the right to apply to the American Arbitration Association for a decision. Except as provided above, each party shall pay (1) its own costs and expenses, including, but not limited to, attorney and witness fees incurred in connection with such arbitration, and (2) one-half of the cost charged by the arbitrator; and

(iv) Judgment upon the award rendered by the arbitrator shall be binding upon the parties and may be entered in any court of competent jurisdiction.

4. Additional Rent.

4.1. In addition to the Fixed Rent payable under Article Three (3) hereof, Tenant shall pay to Landlord additional rent consisting of all sums of money as shall become due and payable by Tenant under this Lease including, but not limited to, the payments due under this Article 4 (collectively, the "Additional Rent").

4.2. The following terms shall have the meanings set forth herein:

"Base Operating Expenses" shall mean Operating Expenses payable for the Base Operating Expense Year, adjusted and calculated as if the Building is ninety-five (95%) percent occupied for the entire year.

"Base Operating Expense Year" shall be the 12 month period following the Commencement Date.

"Base Taxes" shall mean an amount equal to the product of (a) the real estate tax rate in effect for the year in which the Premises are substantially completed in accordance with Section 6.5, and (b) the assessed value of the Building as of the date the Building is fully assessed as a completed and fully occupied Building. If the Building is not fully assessed by the last day of the

year in which the Premises is substantially completed, Landlord shall make a reasonable determination of the Base Taxes, which determination shall be adjusted when the Building is fully assessed by the appropriate taxing authority.

"Operating Expenses" as referred to in the Lease shall include all actual expenses reasonably incurred by Landlord in connection with the operation and maintenance of the Building, comparable to such expenses incurred with respect to office buildings similarly situated and occupied, but shall not include the following: (a) the cost of construction of any improvements on the

real property, including any addition, alteration or refurbishing of space leased to other tenants in the Building, except that amounts equal to savings of labor or other costs in connection with the operation of the Building resulting from such capital improvements shall be included; (b) expenses for repairs or other work occasioned by fire, windstorm or other casualty in excess of a reasonable deductible amount provided in Landlord's insurance policy; (c) expenses incurred in leasing or procuring new tenants for the Building (e.g. commissions, advertising, renovation and legal); (d) legal expenses in enforcing the terms of any lease other than this Lease; (e) interest or principal amortization payments on any mortgage; (f) any Taxes, as referred to in the Lease, corporate franchise or net worth taxes, income taxes (state and federal), personal property taxes, excess profit taxes, license inspection and permit fees; (g) any expenses incurred for which Landlord has a right of reimbursement from a tenant in the Building; (h) claims paid by Landlord in satisfaction or settlement of liability in tort; (i) any payments to the ground lessor; (j) depreciation of the Building or other improvements located on the real property and (k) replacement of the parking lot, roof, HVAC equipment or other capital improvements (as determined in accordance with generally accepted accounting principles) items, other than the following capital improvements which are to be included in Operating Expenses: (i) improvements required by any applicable laws, codes, rules and regulations or the National Board of Fire Underwriters, the New Jersey Board of Fire Underwriters or any other body having similar jurisdiction, or (ii) improvements, equipment or machinery installed for the purpose of reducing energy consumption or reducing other Operating Expenses. Any capital improvements included in Operating Expenses shall be amortized over the useful life of such improvements, equipment and machinery (determined in accordance with generally accepted accounting principals), with an interest factor calculated using the lower of (x) the interest rate being charged to Landlord for financing such improvement, equipment and/or machinery, or (y) the Prime Rate (as defined in Section 21.1). All expenses paid by Landlord to persons or business entities which are affiliated in any way with Landlord must be reasonable and comparable to similar expenses paid by landlords generally in

arms-length transactions in order to be includable in operating expenses. Notwithstanding anything to the contrary contained herein, as long as this Lease encumbers the entire Building, Landlord shall not include in Operating Expenses the amortized cost of making any improvements or purchasing any equipment or machinery installed for the purpose of reducing energy consumption or reducing other Operating Expenses, unless Tenant has approved, in writing, the making of such improvements or the purchase of such equipment or machinery, which approval shall not be unreasonably withheld or delayed.

"Common Areas" shall mean all portions of the Building not intended as rentable area, including, without limitation the parting facilities appurtenant to the Building.

"Governmental Authority" shall mean any Federal, State, County, municipal or local government and all departments, commissions, boards, bureaus, and offices thereof having or claiming jurisdiction over the Building.

"Landlord's Statement" shall mean written statements issued by the Landlord from time to time containing computations of Additional Rent due pursuant to the provisions of this Article 4.

"Landlord's Tax Statement" shall have the meaning given to such term in Section 4.3(b) hereof.

"Monthly Tax Payment" shall have the meaning given to such term in Section 4.3(c) hereof.

"Operational Year" shall mean each period of twelve consecutive months after the Base Operating Expense Year.

"Taxes" shall mean all real estate taxes, assessments, special or otherwise (but not including added or omitted assessments relating to periods prior to the Commencement Date), sewer rents, rates and charges, water rents, rates and charges, or any other charge of a Government Authority of a similar or dissimilar nature, of any kind, which may be levied or assessed upon or with respect to the Building, or any part thereof, or on the appurtenances, sidewalks, streets and road adjacent to the Building or on any use or occupation of the Building and all taxes or charges levied on the Fixed Rent or Additional Rent or the gross receipts from the Building which are in lieu of or substitute for, any other tax or assessment or charge upon or with respect to the Building. For purposes of determining Taxes incurred in any Tax Year, all assessments and other similar charges shall be deemed to be paid by Landlord over the maximum number of installments permitted, except that Tenant shall pay all interest

charges incurred by virtue of any installment payments. Taxes shall not be deemed to include:

(a) franchise or similar taxes of Landlord;

(b) income, excess profits or other taxes, if any, of Landlord, except to the extent such taxes are expressly in lieu of or a substitute for any other tax, assessment or charge upon the Building, which, if such other tax, assessment or charge were in effect would be payable by Tenant as provided herein, in which event such taxes shall be computed as if the Building were the only property of Landlord, and the Fixed and Additional Rent hereunder the only income of Landlord; and

(c) any penalty or interest for late payment of Taxes.

"Tax Year" shall mean the period of twelve (12) consecutive months commencing on January 1st of each year after the calendar year in which the Commencement Date occurs.

"Tenant's Proportionate Share" shall equal 100%.

4.3. (a) If Taxes payable in any Tax Year falling wholly or partially within the Term shall be greater than the Base Taxes, Tenant shall pay to Landlord, as Additional Rent, Tenant's Proportionate Share of the amount by which the Taxes for such Tax Year exceed the Base Taxes ("Excess Taxes").

(b) As soon as practicable, Landlord shall determine or estimate the Excess Taxes, if any, for each Tax Year and shall submit such information to Tenant in a written statement ("Landlord's Tax Statement").

(c) Commencing on the first day of each Tax Year or, if later, the first day of the month immediately following the submission of any Landlord's Tax Statement and continuing thereafter until Landlord renders the next Landlord's Tax Statement, Tenant shall pay to Landlord on account of its obligation under Section 4.3(a) hereof, a sum (the "Monthly Tax Payment") equal to one-twelfth (1/12) of Tenant's Proportionate Share of the Excess Taxes for such Tax Year. Tenant's first Monthly Tax Payment after receipt of Landlord's Tax Statement shall be accompanied by the payment of an amount equal to the product of the number of full months, if any, within the Tax Year which shall have elapsed prior to such first Monthly Tax Payment, times the Monthly Tax Payment, minus any Additional Rent already paid by Tenant on account of its obligation under this Section 4.3 for such Tax Year.

(d) Each Landlord's Tax Statement shall reconcile the payments made by Tenant pursuant to the preceding Landlord's Tax Statement with Tenant's

Proportionate Share of the actual Excess Taxes imposed for the period covered thereby. Any balance due to Landlord shall be paid by Tenant within thirty (30) days after Tenant's receipt of Landlord's Tax Statement; any surplus due to Tenant shall be applied by Landlord against the next accruing monthly installment(s) of Additional Rent. If the Term has expired or has been terminated, Tenant shall pay the balance due to Landlord or, alternatively, Landlord shall refund the surplus to Tenant, whichever the case may be, within thirty (30) days after Tenant's receipt of Landlord's Tax Statement; provided, however, if the Term shall have been terminated as a result of a default by Tenant, then Landlord shall have the right to retain such surplus to the extent Tenant owes Landlord any Fixed Rent or Additional Rent.

4.4. (a) If Landlord shall receive any refund of Taxes in respect of a Tax Year and if Tenant shall have paid Additional Rent based on the Taxes paid prior to the refund, Landlord shall deduct from such tax refund any expenses, including, but not limited to, attorney's fees and appraisal fees, incurred in obtaining such tax refund, and out of the remaining balance of such tax refund, Landlord shall credit Tenant's Proportionate Share of such refund against the next accruing monthly installments of Additional Rent, or if the Term shall have expired, Tenant's Proportionate Share of such refund shall be refunded to Tenant within thirty (30) days after receipt thereof by Landlord; provided, however, if the Term shall have expired as a result of a default by Tenant, Landlord shall have the right to retain Tenant's Proportionate Share of the refund to the extent Tenant owes Landlord any Fixed Rent or Additional Rent.

(b) Notwithstanding anything to the contrary contained in this Lease, Tenant shall not have the right to contest or appeal the validity of any Taxes or the amount of the assessed valuation of the Building without the prior written consent of Landlord, which consent shall not be unreasonably withheld.

(c) While proceedings for the reduction in assessed valuation for any Tax Year is pending, the computation and payment of Tenant's Proportionate Share of Excess Taxes shall be based upon the original assessments for such year.

(d) Tenant shall also pay to Landlord, as Additional Rent, upon demand, the amount of all increases in Taxes and/or all assessments or impositions made, levied or assessed against or imposed upon the Building or any part thereof which are attributable to additions or improvements in, on or about the Premises made by or on behalf of Tenant or which in whole or in part belong to Tenant, subsequent to the Commencement Date.

4.5. (a) If Operating Expenses payable in any Operational Year falling wholly or partially within the Term shall be greater than the Base Operating Expenses, Tenant shall pay to Landlord, as Additional Rent, Tenant's

Proportionate Share of the amount by which the Operating Expenses for such Operational Year exceed the Base Operating Expenses ("Excess Expenses").

(b) As soon as practicable, Landlord shall estimate the Operating Expenses and Excess Expenses for each Operational Year and shall submit such information to Tenant in a written statement ("Landlord's Statement"); provided that the estimate of Operating Expenses shall not be more than 110% of the Operating Expenses actually incurred in the prior Operational Year, unless Landlord delivers to Tenant documentation reasonably acceptable to Tenant showing that the Operating Expenses will increase by more than 110% of the Operating Expenses for the prior Operational Year.

(c) Commencing on the first day of each Operational Year or, if later, the first day of the month immediately following the submission of any Landlord's Statement and continuing thereafter until Landlord renders the next Landlord's Statement, Tenant shall pay to Landlord on account of its obligation under Section 4.5(a) hereof, a sum (the "Monthly Expense Payment") equal to one-twelfth (1/12) of Tenant's Proportionate Share of the Excess Expenses for such Operational Year. Tenant's first Monthly Expense Payment after receipt of Landlord's Statement shall be accompanied by the payment of an amount equal to the product of the number of full months, if any, within the Expense Year which shall have elapsed prior to such first Monthly Expense Payment, times the Monthly Expense Payment, minus any Additional Rent already paid by Tenant on account of its obligation under this Section 4.5. for such Expense Year.

(d) Each Landlord's Statement shall reconcile the payments made by Tenant pursuant to the preceding Landlord's Statement with Tenant's

Proportionate Share of the actual Excess Expenses imposed for the period covered thereby. Any balance due to Landlord shall be paid by Tenant within thirty (30) days after Tenant's receipt of Landlord's Statement; any surplus due to Tenant shall be applied by Landlord against the next accruing monthly installment(s) of Additional Rent. If the Term has expired or has been terminated, Tenant shall pay the balance due to Landlord or, alternatively, Landlord shall refund the surplus to Tenant, whichever the case may be, within thirty (30) days after Tenant's receipt of Landlord's Statement; provided, however, if the Term shall have been terminated as a result of a default by Tenant, then Landlord shall have the right to retain such surplus to the extent Tenant owes Landlord any Fixed Rent or Additional Rent.

4.6. [INTENTIONALLY DELETED]

4.7. Landlord's failure to render Landlord's Statement with respect to any Operational Year or Tax Year, or Landlord's delay in rendering said Statement beyond a date specified herein, shall not prejudice Landlord's right to render a Landlord's Statement with respect to that or any subsequent Operational Year or Tax Year. The obligations of Landlord and Tenant under the provisions of this Section with respect to any Additional Rent shall survive the expiration or any sooner termination of the Term.

4.8. Each Landlord's Statement shall be conclusive and binding upon the Tenant, unless Tenant shall notify Landlord, within thirty (30) days after receipt of Landlord's Statement, that it disputes the correctness of Landlord's Statement, specifying the respects in which Landlord's Statement is claimed to be incorrect. Pending the adjudication of such dispute, Tenant shall pay Additional Rent equal to the Additional Rent payable pursuant to Landlord's Statement in dispute and such payment shall be without prejudice to Landlord's or Tenant's position in any legal proceeding commenced by Landlord or Tenant.

4.9. [INTENTIONALLY DELETED]

4.10. Any Additional Rent payable pursuant to this Section shall be collectible by Landlord in the same manner as Fixed Rent, and Landlord shall have the same remedies for non-payment thereof as Landlord has hereunder for non-payment of Fixed Rent.

4.11. Any payments of Additional Rent or refunds due to Tenant hereunder for any period of less than a full year, or any adjustment required due to the change in the area of the Premises, shall be equitably prorated.

4.12. If Tenant shall fail to pay when due, including any grace period for the purpose hereof, any installment of Fixed Rent or any Additional Rent, Tenant shall pay interest thereon at the interest rate, provided for in Section 21 hereof, from the date when such installment or payment shall have become due to the date of the payment thereof, together with a late charge equal to three percent (3%) of the sum unpaid, which interest and late charge shall be deemed Additional Rent.

4.13. Tenant shall pay (a) to the applicable utility company, Tenant's electricity used in the Premises, the usage of which shall be measured by a meter installed by Landlord, at its sole cost and expense, and (b) to Landlord all actual costs of electric for overtime HVAC costs, the usage of which shall be measured by a meter installed by Landlord, at its sole cost and expense. If, at any time during the Term this Lease does not encumber the entire Building, then the cost of the electricity used within the Common Areas of the Building shall be included in Operating Expenses, and Tenant shall pay Tenant's

Proportionate Share thereof. Notwithstanding anything to the contrary set forth in this Section 4.13, Landlord shall be responsible for the cost of providing electricity for HVAC services to the Premises during Business Hours (as defined in Section 9.1 hereof).

4.14. In no event shall any adjustment in Tenant's obligation to pay Additional Rent under this Article 4 result in a decrease in the Fixed Rent payable hereunder. Tenant's obligation to pay Additional Rent, and Landlord's obligation to credit and/or refund to Tenant any amount, pursuant to the provisions of this Article 4, shall survive the Expiration Date.

5. Electricity.

5.1. Landlord shall, at its sole cost and expense, cause the electrical power to be supplied to the Premises in accordance with the specifications set forth in Exhibit B. As long as this Lease encumbers the entire Building, Tenant shall have the right to arrange with, and have sole discretion to select, the electric utility company to provide electricity to the Premises in accordance with Section 4.13 hereof. At such time as this Lease does not encumber the entire Building, Landlord shall make the selection of the utility company supplying electricity to the Building. Landlord shall not be liable in any way to Tenant for any failure or defect in the supply or character of electricity furnished to the Premises by reason of any requirement, act or omission of the public utility serving the Building with electricity or for any reason not attributable to Landlord. Except for Landlord's obligations under Article 6 herein, Tenant shall furnish and install lighting tubes, lamps and bulbs required in the Premises, at Tenant's expenses, or shall pay Landlord's reasonable charges therefor on demand. Tenant shall not pay (as part of Operating Expense Payments or otherwise) replacement costs for lighting tubes, lamps and bulbs for other tenants.

5.2. Tenant's use of electricity in the Premises shall not, at any time, exceed the capacity of any of the electrical conductors and equipment in or serving the Premises. Tenant shall not, without Landlord's prior consent make any alteration or addition to the electrical systems in the Premises or the Building. All additional risers or other equipment required therefor shall be provided by Landlord and the cost thereof shall be paid by Tenant upon Landlord's demand.

6. Improvements in Preparation for Occupancy.

6.1 Landlord agrees, at its sole cost and expense, to construct the Building substantially in accordance with the Fundamental Design Report attached hereto as Exhibit B, and the Plan titled "Site Plan Dialogic, Inc." prepared by Michael B. McNally, dated February, 1998, (and last revised on August 17, 1998), consisting of 16 pages, and referenced as Project Number 97041 (the "Building Plans"), a copy of which has been delivered to Tenant. Landlord covenants that the Building shall be constructed in a first-class manner. Landlord shall consult with Tenant regarding the materials used for the exterior of the Building, provided, however, that in no event shall Tenant have the right to dictate to Landlord the types of materials to be used for such exterior.

6.2. (a) Landlord shall cause to be constructed certain improvements to the Premises in preparation for Tenant's occupancy (the "Initial Tenant Improvements") in accordance with the plans and specifications referred to herein. Landlord shall pay for the cost of constructing the Initial Tenant Improvements, including the cost of all architectural and engineering plans in connection therewith. Tenant shall reimburse Landlord for all Costs (as hereinafter defined) incurred by Landlord in connection with constructing the Initial Tenant Improvements which are in excess of \$25.00 per rentable square foot of leased space (the "Allowance"). Notwithstanding anything to the contrary, Landlord shall be solely responsible for the cost of installing the electrical meters in the Premises and the Allowance shall not be applied to such costs. After the Initial Tenant Improvements are substantially completed, Landlord shall deliver to Tenant an invoice evidencing the cost of completing the Initial Tenant Improvements in excess of the Allowance and Tenant shall reimburse Landlord for such Costs within thirty (30) days after receipt of such invoice. The term "Costs" shall mean all actual costs incurred by Landlord for work performed or caused to be performed by Landlord, its architects, engineers, contractors and subcontractors, including, but not limited to, the cost of materials, labor, permits, approvals and insurance. Costs shall not include any fees payable to Landlord in connection with its construction of the Initial Tenant Improvements, nor shall it include the payment for any salaries or other internal costs of Landlord in connection with such construction.

(b) Landlord shall obtain bids for constructing the Initial Tenant Improvements from five (5) contractors, three (3) of which are to be selected by Landlord and two (2) of which are to be selected by Tenant. The bidding shall be done on a sealed bid basis, and Landlord and Tenant shall open all bids together. If, either Landlord or Tenant desires not to select the lowest bidder among the contractors and the bid rendered by the contractor preferred by either Landlord or Tenant exceeds \$25.00 per rentable square foot, Landlord and Tenant shall promptly meet and use all good faith efforts to agree upon the selection of the general contractor to perform the Initial Tenant

Improvements. In the event that Landlord and Tenant cannot agree within five (5) days after submission of all bids, Landlord shall have the right to select the

lowest bidder among the bidding general contractors. Landlord shall be responsible for obtaining all necessary permits and governmental authorizations required in connection with the Initial Tenant Improvements (the cost of which shall be included in the Allowance). Landlord represents that all contractors and subcontractors will be properly licensed and qualified to perform the work contracted for. Except as expressly provided above, all contractors, subcontractors, contracts, subcontracts and other construction documents in connection with the Initial Tenant Improvements shall not be subject to Tenant's approval. Tenant shall have the right (whether or not through an agent, contractor or independent architect) to inspect the Premises, from time to time, prior to the Commencement Date to verify the progress of construction, provided that Tenant coordinates such inspections with Landlord's general contractor.

6.3. (a) Landlord shall use all reasonable efforts to submit to the Township of Parsippany, New Jersey (the "Township") the construction plans and specifications for the construction of the shell of the Building, together with all applications necessary in Landlord's reasonable judgment to obtain a building permit for the construction of the shell of the Building (the "Submission Documents") by October 13, 1998 (such date, as it may be extended, is hereinafter referred to as the "Submission Date"); provided, however, that if Tenant and the architect designated by Landlord have not agreed in writing to those items of the Initial Tenant Improvements which will impact upon the construction of the Building shell by September 4, 1998, the Submission Date shall be extended to a date which is four (4) weeks after the date Tenant and the architect so agree.

(b) Landlord shall use all reasonable efforts to substantially complete construction of the Building and the Initial Tenant Improvements pursuant to Section 6.5 hereof by September 1, 1999 (such date is hereinafter referred to as the "Anticipated Completion Date"). In the event that Landlord has not substantially completed construction of the Building and the Initial Tenant Improvements by November 30, 1999, as such date may be extended or reduced as a result of a Tenant Delay, an Unavoidable Delay or pursuant to Sections 6.3(c) and (e) (such date is hereinafter referred to as the "Outside Completion Date"), then, beginning on the Commencement Date, Tenant shall be entitled to a day-for-day abatement of Fixed Rent for each day that Landlord delivers the Premises (with the Initial Tenant Improvements substantially completed) to Tenant after the Outside Completion Date.

(c) Notwithstanding anything to the contrary set forth in Section 6.2(b) above, if Landlord fails to submit the Submission Documents by the Submission Date, the Outside Completion Date shall be reduced on a day-for-day basis for each day that the Submission Documents are submitted to the Township after the Submission Date.

(d) If Landlord fails to deliver the Premises to Tenant by May 1, 2000 with the Initial Tenant Improvements substantially completed in accordance with the terms of this Lease, Tenant shall have the right to deliver a written termination notice (the "Termination Notice") to Landlord terminating this

Lease, at any time prior to the delivery of the Premises with the Initial Tenant Improvements substantially completed. If Tenant delivers the Termination Notice to Landlord, this Lease shall terminate and be of no further force and effect as of the later of June 1, 2000 or the thirtieth (30th) day after Landlord's receipt of such notice, unless Landlord delivers the Premises to Tenant with the Initial Tenant Improvements substantially completed in accordance with the terms hereof by the later of June 1, 2000 or the expiration of such thirty (30) day period, in which event Tenant's Termination Notice shall be null and void, and this Lease shall continue in full force and effect.

(e) Tenant shall use all reasonable efforts to prepare and deliver to Landlord the schematic plans for the Initial Tenant Improvements (the "Schematic Plans") on or before December 15, 1998. If Tenant fails to deliver the Schematic Plans to Landlord prior to December 15, 1998, then the Outside Completion Date shall be extended on a day-for-day basis for each day that the Schematic Plans are submitted after December 15, 1998. Landlord shall deliver to Tenant written notice that it has approved or disapproved the Schematic Plans (which approval shall not be unreasonably delayed) as soon as reasonably possible, but in no event later than ten (10) business days, after receipt of the Schematic Plans. If Landlord disapproves of the Schematic Plans, Tenant shall make all changes requested by Landlord and deliver the revised Schematic Plans within ten (10) business days after Landlord's notice of disapproval. Landlord, at Tenant's expense, shall deliver construction drawings and specifications for the Initial Tenant Improvements to Tenant consistent with the Schematic Plans within six (6) weeks of Landlord's approval of the Schematic Plans. Tenant's comments to the construction drawings and specifications (the "Final Plans") shall be provided as soon as reasonably possible after delivery of construction documents, but in no event later than ten (10) business days after receipt of the drawings. Landlord shall not commence construction of the Initial Tenant Improvements until Tenant has approved the Final Plans.

6.4. If Tenant decides to amend, change or modify the Final Plans after the Final Plans have been approved by Landlord, Tenant shall submit to Landlord for its approval (which approval shall not be unreasonably withheld) a reasonably detailed description of a proposed amendment, change or modification (hereinafter referred to as a "Change Order"). Within ten (10) business days after receipt of the Change Order, Landlord shall notify Tenant whether it approves or disapproves the Change Order, the estimated construction costs for the Change Order and the effect, if any, of the Change Order on the Anticipated Completion Date. If Landlord approves the Change Order, Landlord shall notify Tenant of such approval and Tenant shall notify Landlord whether it approves the estimated cost and the effect, if any, on the Anticipated Completion Date within five (5) business days after Tenant's receipt of Landlord's notice. If Tenant fails to notify Landlord of Tenant's approval of the estimated cost and the effect on the Anticipated Completion Date within said five (5) business day period, then Tenant shall be deemed to have disapproved the estimated cost and effect on the Anticipated Completion Date. Notwithstanding anything to the contrary contained herein, Landlord shall not proceed with the work shown on any approved Change Order unless Tenant has approved Landlord's determination of the

cost and effect of the Change Order.

6.5. The Premises shall be conclusively deemed available for Tenant's occupancy on, and the Commencement Date shall be, the date all of the following conditions have been met:

(a) a temporary certificate of occupancy (whether or not subject to conditions), permitting occupancy of the Premises has or have been issued by the applicable governmental authority; and

(b) the Initial Tenant Improvements have been substantially completed (excluding any details of construction, decoration or mechanical adjustment which do not materially interfere with Tenant's use of such part of the Premises); and

(c) five (5) days written notice of the occurrence of the events described in Subsections (a) and (b) has been given to Tenant; and

(d) sixty (60) days after Tenant is first given access to the Premises to install its trade fixtures and other equipment, provided, however, that such sixty (60) day period shall be extended if Landlord requests Tenant to cease such installation pursuant to Section 6.10 by the number of days such installation has ceased at the request of Landlord.

6.6. The term "Tenant Delay" shall mean any delay in the completion of the Initial Tenant Improvements or in the satisfaction of any conditions set forth in Section 6.5 to the extent such delay is due in substantial part to any act or omission of Tenant, its agents, employees, or contractors. Tenant Delay shall include: (a) delays in the delivery by Tenant of the Schematic Plans and approval of the Final Plans; (b) delays arising from Change Orders requested by Tenant; (c) delays in obtaining any item requested by Tenant which is not part of Landlord's base building work as described on Exhibit B; and (d) a request by Tenant that Landlord suspend or otherwise hold-up proceeding with the fabrication or construction of any portion of the Initial Tenant Improvements because of a possible change therein by Tenant or for any other reason. Landlord shall provide written notice to Tenant of any Tenant Delay.

6.7. If Landlord shall fail to deliver the Premises to Tenant with the Initial Tenant Improvements substantially completed (as provided in Section 6.5) prior to the expiration of the Outside Completion Date, and provided that such failure shall not have been caused in substantial part by or been attributable to (a) any Unavoidable Delay (as defined in Section 38 hereof), or (b) any Tenant Delay (as defined in Section 6.6 hereof), Tenant shall be entitled to a credit (the "Rent Credit") against the installments of Fixed Rent first accruing under this Lease subsequent to the Commencement Date until such Rent Credit shall be fully applied, in an amount equal to one day of Fixed Rent for each day commencing on the Anticipated Completion Date, and continuing through and including the date in which the Premises is substantially completed in accordance with the provisions of Section 6.5 hereof. Notwithstanding anything

to the contrary contained herein, if Landlord shall fail to deliver the Premises to Tenant with the Initial Tenant Improvements substantially completed prior to the Anticipated Completion Date, and provided that such failure shall have been caused by or attributable to either an Unavoidable Delay or any Tenant Delay, then one day shall be added to the Anticipated Completion Date for each day in case of an Unavoidable Delay, from and after the date of the occurrence of such event until the delay attributable to such Unavoidable Delay shall cease or, in the case of a Tenant Delay, from and after the occurrence of the Tenant Delay until the delay attributable to such Tenant Delay shall cease.

6.8. By entering into occupancy of any part of the Premises (excluding access as contemplated by Section 6.10), Tenant shall be conclusively deemed to have agreed that Landlord, up to the time of such occupancy, had performed all of its obligations hereunder with respect to such part of the Premises and that such part, except for minor details of construction, decoration and mechanical adjustment, was in satisfactory condition as of the date of such occupancy,

unless within ten (10) days after such date Tenant shall give notice to Landlord specifying the respects in which the same was not in such condition.

6.9. If Landlord is delayed in delivering possession of the Premises to Tenant because of the fact that a certificate of occupancy has not been procured, or for any other reason, Landlord shall not be subject to any liability for damages for failure to give possession on said date and the validity of this Lease shall not be impaired under such circumstances.

6.10. At least sixty (60) days prior to the Commencement Date, Tenant shall be permitted access to install its trade fixtures and other equipment, provided, that in no event shall Tenant interfere with the completion of the Initial Tenant Improvements in connection with its installation of its trade fixtures and other equipment and Tenant shall immediately cease any such work if Landlord notifies Tenant that such installation is interfering with the construction of the Initial Tenant Improvements.

6.11. Landlord shall cause, at its expense, the Building, including the access areas into the Building and doorways, to be delivered and maintained, and the Initial Tenant Improvements to be delivered (but not maintained), in compliance with all laws (including the provisions of the Americans with Disabilities Act (the "ADA")). Tenant, at its sole cost and expense, shall maintain the Initial Tenant Improvements, and construct and maintain any future alterations, in compliance with all laws (including the ADA).

6.12. (a) As part of the construction of the Building, Landlord shall build an enclosed one story bridge connecting the second floor of the Building to the second floor of the Existing Building (with a sidewalk and access to the buildings on the first floor), with materials consistent with those used in the Building. Such construction shall include the connection to both the first and second floors of the Building and the Existing Building. In addition, at the request of Tenant, Landlord shall purchase and install one or more "static

switch(es)" for the Building and/or the Existing Building. The specifications for the static switch(es) shall meet the specifications determined by Tenant. The construction of the bridge and the purchase and installation of the static switch(es) shall not be deemed part of the Initial Tenant Improvements, and Landlord's failure to complete such bridge and install the static switch(es) by the Anticipated Completion Date shall in no way affect the determination of whether the Commencement Date has occurred pursuant to Section 6.5 hereof. Landlord shall use reasonable efforts to minimize its interference with Tenant's operations in the Existing Building caused by the construction of the bridge and/or the static switch(es), provided, that, in no event shall Landlord be required to perform such work after Business Hours.

(b) Landlord shall pay for the first \$750,000 of the Costs to build the bridge and purchase and install the static switch(es) as specified in subsection (a) above. If the Costs of constructing the bridge and purchasing and installing the static switch(es) is greater than \$750,000, Tenant shall reimburse Landlord for the Costs thereof within thirty (30) days after an invoice, marked paid by the applicable vendor, specifying in reasonable detail the amount paid by Landlord is delivered to Tenant. If the Costs of constructing the bridge and purchasing and installing static switch(es) is less than \$750,000, the difference shall be added to the Allowance. Notwithstanding anything to the contrary contained in this Section 6.12, if, at the request of Tenant Landlord does not build the bridge, then Landlord shall have no obligation to pay for the cost of purchasing and/or installing the static switch(es) and there shall be no amount added to the Allowance as provided in the immediately preceding sentence.

7. Alterations

7.1. Following the completion of the Initial Tenant Improvements, as long as there is no continuing Event of Default by Tenant under the terms of this Lease, Tenant may, upon prior notice to Landlord and submission of plans and specifications to Landlord, if applicable, make interior non-structural additions or improvements to or alterations to the Premises, having a cost not to exceed \$200,000.00, either individually or in the aggregate, with other alterations made within a twelve (12) month period, as long as the same do not affect, alter, interfere with or disrupt any of the electrical, mechanical, plumbing or other systems in the Building, or the outside appearance, roof or any structural element of the Building (collectively or individually, a "Building Disruption"). A Building Disruption shall not include minor changes to the electrical or HVAC systems in the Premises resulting from an alteration to the Premises which does not interfere with the electrical or HVAC systems in the space of any other tenant in the Building, if any.

7.2. Tenant shall not make any addition or improvement in or alteration of the Premises which (a) has a cost in excess of \$200,000.00, either individually or in the aggregate with other alterations made within a twelve (12) month period, or (b) is a Building Disruption (any such work being hereinafter referred to as "Major Work"), unless Tenant submits to Landlord

detailed plans and specifications therefore and Landlord approves such plans and specifications in writing, which approval may not be unreasonably withheld or delayed by Landlord, provided Landlord may withhold such approval in its sole discretion for Major Work impacting Building systems, the outside appearance, roof or any structural element of the Building.

7.3. After completion of such Major Work, Tenant agrees to pay to Landlord, within thirty (30) days after delivery by Landlord of documentation reasonably acceptable to Tenant evidencing such costs, Landlord's actual and reasonable costs for reviewing Tenant's plans and overseeing the work for any alterations, improvements or additions made pursuant to this Article 7 constituting Major Work, not to exceed five percent (5%) of all costs incurred by Tenant in making such alterations, improvements or additions.

7.4. (a) If Tenant performs any subsequent alterations pursuant to Section 7.1 or 7.2, Tenant shall, prior to the commencement of construction or demolition, at its expense, obtain all building permits, approvals and certificates required by any Governmental Authority and upon completion, a certificate of occupancy and shall deliver promptly duplicates of all such permits, approvals and certificates to Landlord. Tenant will cause Tenant's contractors and subcontractors to carry workers' compensation, general liability, auto liability, property damage insurance and any other insurance reasonably requested by Landlord, naming as an additional insured Landlord, Landlord's property manager, and any holder of a Superior Mortgage (as hereinafter defined) as their interest may appear, in amounts and in form reasonably acceptable to Landlord. Tenant agrees to obtain and deliver to Landlord certificates of insurance evidencing the required coverage. If any mechanic's lien is filed against the Premises or the Building, for work claimed to have been done for, or materials furnished to, Tenant, whether or not done pursuant to this Article, the same shall be discharged or bonded by Tenant, at Tenant's expense, within 30 days after Tenant's notice of the filing of such lien.

(b) Tenant shall perform any additional improvement or alteration in a good and workmanlike manner and in compliance with all applicable legal requirements and in accordance with the standards, if any, of the National Board of Fire Underwriters or other organizations exercising similar functions.

(c) All materials and workmanship shall be of at least equal quality to the Initial Tenant Improvements.

(d) In all events, Landlord shall be permitted to designate, in its own absolute discretion, the contractor(s) to be used by Tenant for heating, ventilation and air-conditioning ("HVAC"), plumbing, electrical or mechanical work, which contractor shall be the contractor then used by Landlord for such systems in the Building. Such contractor shall carry workers' compensation, general liability, automobile liability, property damage insurance and other insurance reasonably carried by contractors performing such work. If Landlord

does not designate its own contractors to perform the work set forth in this

Section 7.4(d), Tenant may designate its own contractor to perform such work, provided, that Landlord approves such contractor, which approval shall not be unreasonably withheld. Tenant hereby waives any rights, of any kind or nature whatsoever, it may now or hereafter have against Landlord as a result of any loss, cost or expenses (including attorney's fees), foreseen or unforeseen, incurred by Tenant solely by virtue of Tenant's required use of the contractor(s) so selected by Landlord.

7.5. All improvements to the Premises, including without limitation, the Initial Tenant Improvements and all fixtures, paneling, partitions, railings and like installations (excluding movable partitions and Tenant's personal property and equipment but including wall-to-wall carpeting, drapes and fixtures) installed in the Premises at any time, either by Tenant, or by Landlord on Tenant's behalf, shall become the property of Landlord and shall remain upon and be surrendered with the Premises unless Landlord, by notice to Tenant at the time of approval (to the extent approval is required by the terms of this Lease), elects to have the same removed by Tenant, in which event, the same shall be so removed from the Premises by Tenant no later than the end of the Term, at Tenant's expense and Tenant shall immediately and at its sole expense, repair and restore the Premises as may be necessary to maintain its structural integrity following removal and repair any other damage to the Premises or the Building due to such removal. Notwithstanding the foregoing, at the time Landlord approves the Initial Tenant Improvements, Landlord shall inform Tenant what of the Initial Tenant Improvements shall be removed at the end of the Term. Tenant's trade fixtures and personal property may be removed by Tenant at the end of the Term. All property permitted or required by Landlord to be removed from the Premises at the end of the Term that, nonetheless, remains in the Premises after Tenant's surrender thereof shall be deemed abandoned and may, at the election of Landlord, either be retained as Landlord's property or may be removed from the Premises by Landlord at Tenant's expense. Notwithstanding anything to the contrary contained in this Section 7.5, at the end of the term of this Lease Tenant shall not have the obligation to remove from the Premises raised flooring, stairways, vaults or the improvements in the engineering offices.

7.6 Tenant agrees not to employ, either directly or indirectly, or permit the employment of, any contractors, subcontractors, materialmen, laborer, vendor, mover or any other party ("Contracting Parties") employed for any services relating to or in connection with the Premises which, in Landlord's sole opinion, would create any difficulty, strike or jurisdictional dispute with other Contracting Parties engaged by Tenant, Landlord, other tenants in the Building or others, or would in any way disturb the construction, maintenance, cleaning, repair, management, security or operation of the Building or any part thereof. Tenant, upon demand by Landlord, shall cause all such Contracting Parties causing such interference, difficulty or conflict, to leave or be removed from the Building immediately.

8. Repairs and Maintenance.

8.1. Landlord, at its expense, shall keep, maintain and repair in good condition the HVAC, exterior walls (including, but not limited to, preventing water leaks) and windows, roof, structural elements and building systems of the Building and the parking areas and landscaping on the Property. The cost of performing such maintenance and repairs shall be included in Operating Expenses to the extent permitted pursuant to Section 4.2 hereof. Notwithstanding anything to the contrary set forth in this Section 8.1, Tenant (and not Landlord) shall be responsible for the maintenance of the items listed in this Section 8.1 to the extent any repairs arise out of the fault or negligence of Tenant.

8.2. Tenant shall, throughout the Term, take good care of and maintain the Premises and the fixtures and appurtenances therein, and shall make all repairs and replacements, as and when needed to preserve the Premises in good working order and condition except for those portions of the Premises which are Landlord's responsibility as set forth in Section 8.1 above. All damage or injury to the Premises or to any other part of the Building, or to its grounds, fixtures, equipment, systems and appurtenances, whether requiring structural or nonstructural repairs, caused by or resulting from any carelessness, act, omission, negligent or improper conduct of Tenant, Tenant's servants, employees, contractors, agents, invitees or licensees, or by the use or manner of use of the Premises by Tenant or any such person, shall be repaired promptly by Tenant at its sole cost and expense, to the reasonable satisfaction of Landlord. Tenant shall also repair all damage to the Building and to the Premises caused by the moving of Tenant's fixtures, furniture, or equipment into or out of the Premises or the installation thereof. All such repairs shall be of quality and class equal to the Initial Tenant Improvements. If Tenant fails after ten (10) days' notice to proceed with due diligence to make any repairs required to be made by Tenant (except in an emergency, wherein Landlord may proceed immediately if Tenant does not immediately proceed to repair), such repairs may be made by Landlord at the expense of Tenant and the costs and expenses thereof incurred by Landlord shall be collectible as Additional Rent on the date on which the next installment of Fixed Rent is due hereunder following delivery by Landlord of an invoice therefor.

8.3 On the Commencement Date, Landlord shall deliver to Tenant the Building's mechanical and electrical systems in good working order.

9. Utilities and Services.

9.1. As long as Tenant is not in default under any of the covenants of this Lease, Landlord shall provide: (a) necessary elevator facilities; (b) HVAC to the Premises when and as required on business days (holidays excepted) from 8 a.m. to 6 p.m. (weekdays) and 8 a.m. to 1 p.m. (Saturday) (collectively, "Business Hours"); (c) water for ordinary purposes; and (d) cleaning services in accordance with Exhibit C hereto, for the common areas of the Building, and the Premises, on business days (holidays excepted), provided that the same are kept

in order by Tenant. Special cleaning services in excess of those provided by Landlord, at Tenant's request, shall be at Tenant's sole cost and expense and subject to Landlord's reasonable approval. Landlord shall maintain a guard service from 6 p.m. to 11 p.m., Monday through Friday; and 9 a.m. to 4 p.m. on Saturdays and Sundays. In addition, Landlord shall maintain three full time (3) building engineers and one (1) full time day porter for both the Building and the Existing Building. At any time during the Term that this Lease encumbers the entire Building, Tenant shall have the right to assume the obligation to provide guard service for the Building by delivering written notice thereof to Landlord. If Tenant assumes such obligation, Landlord shall reimburse Tenant for the actual and reasonable costs incurred by Tenant for maintaining such guard service. In no event shall the amount Landlord is obligated to reimburse Tenant for providing such guard service exceed the cost incurred by Landlord in providing such guard service immediately prior to the date that Tenant assumes the obligation to provide such service, or, if Landlord has never provided such guard service, the proportionate share of the cost Tenant is reimbursed by Landlord for guard service in the Existing Building. Landlord shall reimburse Tenant within thirty (30) days after receipt of documentation reasonably acceptable to Landlord evidencing that Tenant has paid for such guard service.

9.2. Landlord reserves the right to suspend services of the heating, elevators, plumbing, air conditioners, power systems or cleaning or other services, when necessary by reason of accident or for repairs, alterations, replacements or improvements necessary for as long as may be reasonably required by reason thereof, or by reason of strikes, accidents, laws, order or regulations or any other reason beyond the control of Landlord, and in such case, Tenant shall not be entitled to any abatement of rent or any other offset whatsoever. Landlord shall provide Tenant with advance notice of any proposed suspension and will use commercially reasonable efforts to effect the repairs, alterations and replacements.

9.3. (a) In addition to any rights of Tenant under Section 9.3(b), if permitted by applicable laws, Tenant shall have the right to place supplemental HVAC equipment and a satellite dish on the roof of the Building. Tenant may

request and Landlord shall designate an area on the Building roof for supplemental HVAC equipment and a satellite dish which shall be purchased and installed by Tenant. Landlord shall review all plans and Landlord's approval shall not be unreasonably withheld or delayed. Tenant shall pay all costs for reinforcing the roof to support the supplemental system and/or the satellite dish. Landlord shall have the right to perform any work regarding the reinforcement of the roof, at Tenant's expense. At the expiration of this Lease, Tenant shall restore the Building and Premises to the condition existing prior to any modifications for supplementary HVAC and the satellite dish.

(b) During the time that this Lease encumbers the entire Building, Tenant shall be permitted to place supplemental HVAC equipment and/or a satellite dish on any portion of the Property, provided the location of which is reasonably acceptable to Landlord and such installation is in compliance with

all applicable laws and regulations. If, at any time during the Term this Lease does not encumber the entire Building, then, upon request by Landlord, Tenant, at its sole cost and expense, shall place such equipment and/or dish on the roof of the Building, and in such event Tenant shall comply with subsection (a) above.

10. Insurance.

10.1. Tenant shall maintain commercial general liability insurance providing coverage for bodily injury, personal injury, property damage and contractual liability with limits of at least \$3,000,000 per occurrence and \$5,000,000 annual aggregate, or such higher limits as Landlord shall prudently require, with carriers and in forms reasonably satisfactory to Landlord.

10.2. If Tenant shall fail to maintain such insurance as is required by this Article 10, Landlord may obtain such insurance, the amount of the premium or premiums paid by Landlord for such insurance shall be collectible as Additional Rent on the date on which the next installment of Fixed Rent is due hereunder following delivery by Landlord of an invoice therefor.

10.3. All insurance policies maintained by Tenant under this Article 10 shall name Landlord, Landlord's property manager and any holder of a Superior Mortgage as an additional insured.

10.4. Landlord, at Landlord's cost and expense, will maintain all-risk property insurance in an amount not less than the replacement cost of the Building.

10.5. Tenant shall carry fire and extended coverage insurance insuring its interest in Tenant's personal property, including but not limited to, office furniture, equipment and supplies therein. Tenant shall maintain Workers'

Compensation insurance as required by the State of New Jersey as well as Employers' Liability insurance with a limit of at least \$100,000 per employee per accident.

10.6. Each party hereby waives any rights of action against the other for loss or damage covered by the property insurance required hereunder and each party covenants and agrees with the other that it will obtain a waiver from the carriers of such property insurance policies releasing such carrier's subrogation rights as against the Landlord and/or Tenant, as the case may be. Tenant shall provide Landlord with Certificates of Insurance which shall evidence that the insurance required hereunder is in full force and effect, that such insurance will not be terminated or canceled without thirty (30) days' prior written notice to Landlord by the carrier of such insurance and that the carrier of such insurance waives all right of recovery by way of subrogation against the Landlord. The Certificates will be delivered prior to occupancy of the Premises and Tenant shall deliver new Certificates showing the renewal of the coverage at least 10 days prior to the expiration of the existing coverage.

10.7. Tenant shall not do anything, or suffer or permit anything to be done in or about the Premises, the Building or its common areas which shall (a) subject Landlord to any liability or responsibility for injury to any person or property by reason of any activity being conducted on the Premises, (b) cause any increase in the fire insurance rates applicable to the Building or equipment or other property located therein, or (c) be prohibited by any license or other permit required or issued by Governmental Authority. Tenant, at Tenant's expense, shall comply with all rules, orders, regulations or requirements of the National Board of Fire Underwriters or any similar body. In the event that any alteration of the Premises by Tenant, any act or omission of Tenant, or Tenant's occupancy of the Premises shall cause the rate of fire or other insurance maintained by Landlord on the Building or the Premises to be increased, Tenant shall pay the amount of any such increase as Additional Rent on the date on which the next installment of Fixed Rent is due hereunder following delivery by Landlord of an invoice therefor.

11. Use.

11.1. Tenant shall use the Premises for engineering labs, general business, professional, executive, and administrative offices, and such activities as are normally incidental thereto. Tenant shall not use the Premises for any other purpose.

11.2. Tenant shall not use or occupy, suffer or permit the Premises or any part thereof to be used in any manner, or anything to be done therein or suffer or permit anything to be brought into or kept therein, which would in any way tend to or: (a) cause substantial or objectionable noise, (b) violate any

laws or requirements of a Governmental Authority, (c) make void or voidable any insurance policy then in force with respect to the Building and Common Areas, (d) make unobtainable from reputable insurance companies authorized to do business in the State of New Jersey at standard rates any fire insurance with extended coverage, or liability, elevator, boiler or other insurance required to be furnished by Landlord under the terms of a Superior Mortgage (e) cause, or be likely to cause, physical damage to the Building, Common Areas or any part thereof, (f) constitute a public or private nuisance, (g) impair the appearance, character or reputation of the Building, (h) discharge objectionable fumes, vapors or odors into the Building's air conditioning system or into the Building's flues or vents or otherwise in such manner as may unreasonable offend other occupants, or (i) impair or interfere with any of the Building's services, including the furnishing of electrical energy, or the proper and economic cleaning, air conditioning or other servicing of the Building or the Premises, or impair or interfere with the use of any of the other areas of the Building, or occasional discomfort, annoyance or inconvenience to Landlord or any of the other tenants or occupants of the Building. The provisions of this Section, and the application thereof, shall not be deemed to be limited in any way to or by the provisions of any other Section of this Article or any of the Rules and Regulations set forth in Exhibit D hereto.

11.3. Tenant will not at any time use or occupy, or suffer or permit to use or occupy the Premises in violation of any certificate of occupancy issued for or insurance policies issued on the Building or any applicable laws, statutes, rules, ordinances, orders, regulations of any Governmental Authority, including, without limitation, any recycling laws or other environmental or conservation laws.

11.4. Except in accordance with all legal requirements, Tenant shall not store, use, or dispose of any hazardous materials (as defined in Section 1014(14) of the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended from time to time (42 U.S.C. Section 9601 et seq.) or N.J.A.C. 7:16-1.1), in, on, under or about the Premises. Tenant shall, at Tenant's own expense, comply with the Industrial Site Recovery Act, N.J.S.A. 13:1k-6 et seq., and all other applicable federal, state, and local laws, promulgated with respect to hazardous substances and the regulations promulgated thereunder applicable to the Premises and Tenant's use thereof. Tenant shall defend, indemnify and hold harmless Landlord from and against all claims, costs, and liabilities, including attorneys' fees, arising out of or in connection with Tenant's breach of its obligations under this Section 11.4. Tenant's obligations

under this Section 11.4 shall survive the expiration or earlier termination of this Lease.

11.5. Tenant shall not place a load upon any floor of the Premises that exceeds the floor load per square foot that such floor was designed to carry and which is allowed by certificate, rule, regulation, permit or law. If Tenant wishes to place any safe, heavy machinery, heavy equipment, bulky matters or fixtures in the Premises, it may do so at its own expense, but Landlord reserves the right to prescribe their weight and position. Business machines and mechanical equipment in the Premises shall be placed and maintained by Tenant, at Tenant's expense, in such manner as shall be sufficient in Landlord's judgment to absorb vibration and noise and prevent annoyance or inconvenience to any other Tenant or occupant of the Building.

12. Assignment and Subletting.

12.1. Neither this Lease, nor the term and estate hereby granted, nor any part hereof or thereof, shall be assigned, mortgaged, pledged, encumbered or otherwise transferred by Tenant and neither the Premises, nor any part thereof, shall be encumbered in any manner by reason of any act or omission on the part of Tenant or anyone claiming under or through Tenant without Landlord's prior written consent which consent shall not be unreasonably withheld or delayed. Tenant shall have the right, with the prior consent of Landlord which consent shall not be unreasonably withheld or delayed, to assign this Lease or to sublet the Premises or any portion thereof provided:

(a) Tenant shall furnish Landlord with the name and business address of the proposed assignee or subtenant, a copy of the proposed assignment

or subletting agreement which includes the rental amounts to be paid by the subtenant, and reasonably satisfactory information with respect to the nature and character of the business and financial condition of the proposed assignee or subtenant. Any proposed assignee or subtenant must, in the reasonable judgment of the Landlord, be of a character, engage in a business and maintain a financial condition which is in keeping with the reasonable standards of Landlord for the Building.

(b) The purposes for which the proposed assignee or subtenant intends to use the Premises are expressly permitted by this Lease;

(c) No subletting shall be for a term (including renewals, if any) ending later than one day prior to the expiration date of this Lease;

(d) No Event of Default shall have occurred and be continuing, either at the time that Landlord's consent to any assignment or subletting if

required or on (i) the proposed effective date of the assignment, or (ii) the date of the commencement of the term of any such assignment or subletting;

(e) Tenant agrees to pay Landlord, in consideration for Landlord's consent to the assignment or subletting, net of expenses incurred by Tenant, fifty percent (50%) of the difference of between the amount Tenant pays to Landlord pursuant to this Lease with respect to the Premises, or the portion thereof sublet or assigned, and the amount received by Tenant from its assignee or subtenant with respect thereto.

(f) If, at any time during the renewal periods, Tenant is occupying less than seventy percent (70%) of the Premises, then Tenant agrees to pay to Landlord one hundred percent (100%) of any Net Profits (as hereinafter defined) received by Tenant from its assignee or subtenant with respect thereto. For purposes hereof, the term "Net Profits" shall mean, in the case of a sublease, the amount by which the aggregate of all rents, additional charges or consideration payable under a sublease to Tenant by the subtenant (including sums paid for the sale or rental of Tenant's fixtures, leasehold improvements, equipment, furniture or other personal property to the extent such sums exceed the fair market value or fair market rental value of such items, as the case may be) exceed the sum of (i) the Fixed Rent plus all amounts payable by Tenant pursuant to the provisions hereof during the term of the sublease in respect of the sublease space, including Additional Rent, and (ii) brokerage commissions due and owing to a real estate brokerage firm in connection with the sublease, together with legal fees, architectural and engineering fees, advertising expenses and construction costs and allowances incurred by Tenant in connection with such sublease; and in the case of an assignment, the amount by which all sums and considerations paid to Tenant by an assignee of this Lease for or by reason of such assignment (including sums paid for the sale or rental of Tenant's fixtures, leasehold improvements, equipment, furniture or other personal property to the extent such sums exceed the fair market value or fair market rental value of such items, as the case may be) exceed the sum of

brokerage commissions due and owing to a real estate brokerage firm, in connection with the assignment, together with legal fees, architectural and engineering fees, advertising expenses and construction costs and allowances incurred by Tenant in connection with such assignment, plus the Fixed Rent and all other amounts payable by Tenant, including Additional Rent, payable by Tenant hereunder for the remainder of the Term;

(g) Tenant agrees to pay to Landlord an amount that will reimburse Landlord for reasonable legal fees actually incurred by it to engage outside counsel to assist it in reviewing and approving the proposed assignment or subletting, but, in no event, shall reasonable fees exceed \$1,000.00; and

(h) Tenant shall deliver promptly to Landlord an executed copy of each assignment or subletting agreement as may be authorized by this Article upon the execution of any such agreement.

12.2. Landlord and Tenant agree that it will not be unreasonable for Landlord to withhold its consent to any assignment or subletting if the assignment or subletting will increase Landlord's financial risk or responsibility or jeopardize the enforceability of the Lease or restrict its ability to lease other space in the Building.

12.3. No assignment, subletting or occupancy shall be deemed a waiver of the provisions in this Article 12 or a release of Tenant from the full performance by Tenant of all of the terms, conditions and covenants of this Lease. Each assignee shall assume and be deemed to have assumed this Lease and shall be and remain liable jointly and severally with Tenant for the payment of the Fixed Rent and Additional Rent and for the due performance of all the terms, covenants, conditions and agreements herein contained on Tenant's part to be performed for the Term of this Lease. No merger or business consolidation, sale of control or shares or other change of ownership or management shall constitute an assignment or subleasing hereunder.

12.4. Landlord's approval of any assignment or sublease shall be conditioned upon Landlord approving the executed copy of each assignment or subletting agreement, which approval shall not be unreasonably withheld or delayed. Any sublease shall provide that it is subject and subordinate to this Lease and to the matters to which this Lease is subordinate, and that in the event of a termination of this Lease, such subtenant shall, at Landlord's option, attorn to Landlord as its sublessor pursuant to the then applicable terms of such sublease for the remaining term thereof, except that Landlord shall not be (a) liable for any previous act or omission of Tenant as sublessor under such sublease, (b) subject to any offset which theretofore accrued to such subtenant against Tenant, or (c) bound by any previous modification of such sublease not consented to in writing by Landlord or by any previous payment of rent more than one (1) month in advance.

13. Default.

13.1. Each of the following events shall constitute an "Event of Default" under this Lease:

(a) the failure of Tenant to pay an installment of Fixed Rent or Additional Rent, or other sum of money whatsoever when due which Tenant shall be obligated to pay under the provisions of this Lease, if such failure continues

for ten (10) days from the date Landlord delivers to Tenant notice of such failure;

(b) an Event of Default (as such term is defined in the Existing Lease) has occurred under the Existing Lease;

(c) the failure of Tenant to perform or observe any of the other terms, covenants, conditions or agreements of this Lease, if such failure continues for thirty (30) days after delivery by Landlord of written notice to Tenant of such failure (provided, that in the case of any such default which cannot be cured by the payment of money and cannot with diligence be cured within said 30-day period, if Tenant shall commence promptly to cure the same and thereafter prosecutes the curing thereof with diligence and provides Landlord with written evidence thereof, the term within which such default may be cured shall be extended for such period as necessary to complete the curing thereof with diligence);

(d) the levy of any execution or attachment against Tenant or any of Tenant's property pursuant to which the Premises, or any portion thereof, may be taken or occupied by someone other than Tenant;

(e) if Tenant shall file a voluntary petition in bankruptcy or insolvency, or shall be adjudicated a bankrupt or insolvent, or shall file any petition or answer seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under the present or any future federal bankruptcy act or any other present or future applicable federal, state or other statute or law, or shall make any assignment for the benefit of creditors or shall seek or consent to or acquiesce in the appointment of any trustee, receiver or liquidator of Tenant, or of all or any part of Tenant's property and, provided further, that within sixty (60) days after the commencement of any such proceeding against Tenant, such proceeding shall not have been dismissed or stayed, or if, within sixty (60) days after the appointment of any trustee, receiver or liquidator of Tenant, or of all or any part of Tenant's property, without the consent or acquiescence of Tenant, such appointment shall not have been vacated or otherwise discharged, or if any execution or attachment shall be issued against Tenant or any of Tenant's property pursuant to which the Premises shall be taken or occupied or attempted to be taken or occupied;

(f) if any event shall occur or any contingency shall raise whereby this Lease or the estate hereby granted or the unexpired balance of the

Term, would, by operation of law or otherwise, devolve upon or pass to any

person, firm or corporation other than Tenant except as if expressly permitted under Article 12;

(g) if the Premises shall become vacant, deserted or abandoned for a period of thirty (30) consecutive days; or

(h) if Tenant shall assign this Lease or sublet the Premises in violation of the terms and provisions of Article 12 hereof.

13.2. In the event Tenant becomes a debtor in a case pending under the Bankruptcy Code (11 U.S.C. Section 101 et. seq.), Landlord's right to terminate this Lease shall be subject to the right of the trustee in bankruptcy, or debtor in possession, as the case may be, to assume or assign this Lease. To the extent permitted or allowed by law, the trustee or debtor shall not have the right to assume or assign this Lease, until the trustee or debtor (i) promptly cures all defaults under this Lease, (ii) promptly compensates Landlord for monetary damages incurred as a result of such default, and (iii) provides "adequate assurance of future performance", which shall mean, in addition to any other requirements of 11 U.S.C. Section 365(b)(3), that all of the following have been satisfied: (a) in addition to rent payable under the Lease, the trustee or debtor shall establish with Landlord a security deposit equal to three months of Fixed Rent; (b) maintain said security deposit in said amount whenever it is drawn upon by Landlord after a default by Tenant; (c) trustee or debtor must agree that Tenant's business shall be conducted in a first class manner; and (d) the use of the Premises shall not change. If all the foregoing are not satisfied, Tenant shall be deemed not to have provided Landlord with adequate assurance of future performance of this Lease.

14. Remedies of Landlord.

14.1. If at any time during the term of this Lease, one or more Events of Default shall have occurred and shall not have been remedied, then, and in any such case, Landlord, at Landlord's option, may elect to:

(a) terminate this Lease at any time by giving notice of termination to Tenant, and the term hereof shall expire by limitation upon the date prescribed in such notice as fully and completely as if said date were the date herein originally fixed for the expiration of the Term, and Tenant shall thereupon quit and peacefully surrender the Premises to Landlord without payment therefor by Landlord;

(b) reenter the Premises, and remove all persons and property therefrom, either by summary proceedings or by any suitable action or proceeding at law; and/or

(c) commence summary dispossess and/or ejectment proceedings

based on Tenant's failure to pay rent.

14.2. In the event of the termination of this Lease, or of reentry by summary proceedings, ejectment or by any suitable action or proceeding at law, or by agreement, or by force or otherwise, by reason of default hereunder on the part of Tenant or Tenant's abandonment of the Premises, the non-prevailing party shall pay reasonable attorneys' fees and costs of the prevailing party. Landlord's damages at the election of Landlord, are either:

(a) sums equal to the Fixed Rent and the Additional Rent payable hereunder which would have been payable by Tenant had this Lease not so terminated, or had Landlord not so reentered the Premises, payable monthly, in advance, but otherwise upon the terms therefor specified herein following such termination or such reentry and until the conclusion of the Term, provided, however, that if Landlord shall relet the Premises or any portion or portions thereof during said period, Landlord shall credit Tenant with the net rents received by Landlord from such reletting, such net rents to be determined by first deducting from the gross rents as and when received by Landlord from such reletting, the reasonable expenses incurred or paid by Landlord in terminating the Lease or in reentering the Premises, including reasonable attorneys' fees, and in securing possession thereof, as well as the reasonable expenses of reletting, including altering and preparing the Premises or any portion or portions thereof for new tenants, brokers' commissions, advertising expenses, and all other expenses properly chargeable against the Premises and the rental therefrom; it being understood that any such reletting may be for a period shorter or longer than the remaining term of this Lease, but in no event shall Tenant be entitled to receive any excess of such net rents over the sums payable by Tenant to Landlord hereunder, nor shall Tenant be entitled in any suit for the collection of damages pursuant to this subsection to a credit in respect of any rents from a reletting, except to the extent that such rents are actually received by Landlord. Landlord shall make commercially reasonable efforts to mitigate damages. If the Premises or any part thereof should be relet in combination with other space or for greater than the balance of the Term, then proper apportionment shall be made of the rent received from such reletting and of the expenses of reletting, and Landlord shall have the right to grant reasonable rent concessions to attract one or more new Tenants and to permit the term of any new lease covering part or all of the Premises to be for a shorter or longer period than provided for herein; or

(b) on demand, a liquidated sum which at the time of such termination of this Lease or at the time of any such reentry by Landlord, as the case may be, represents the present value, discounted by the Prime Rate (as defined in Section 21.1 hereof), of the excess of (i) the aggregate of the Fixed Rent and the Additional Rent payable hereunder which would have been payable by

Tenant (conclusively presuming the Additional Rent to be the same as was payable for the year immediately preceding such termination) for the period commencing with such earlier termination of this Lease or the date of such reentry, as the case may be, and ending with the conclusion of the Term, had this Lease not so

terminated or had Landlord not so reentered the Premises, over (ii) the fair market rental value (calculated as of the date of such termination or reentry) of the Premises for the same period.

14.3. If the Premises or any part thereof be relet by Landlord for the unexpired portion of the Term of this Lease, or any part thereof, before presentation of proof of such damages to any court, commission or tribunal, the amount of rent reserved upon such reletting shall, *prima facie*, be the rental value, for purposes of Section 14.2(b), for the Premises, or part thereof, so relet during the term of the reletting. Landlord shall in no event and in no way be responsible or liable for any failure to relet the Premises or any part thereof or for failure to collect any rent due upon any such reletting.

14.4. In the event Landlord elects to collect damages from Tenant under Section 14.2(a), at any time subsequent to such election and upon ten (10) days prior written notice to Tenant, Landlord may elect to collect a lump sum under Section 14.2(b), crediting Tenant with amounts theretofore received by Landlord as damages.

14.5. The foregoing Sections of this Article shall also apply if the default by Tenant has occurred prior to the Commencement Date and/or prior to Tenant taking possession of the Premises.

14.6. Landlord, in putting the Premises in good order or preparing the same for rerental may, at Landlord's option, make such alterations, repairs, replacements, and decorations in the Premises as Landlord, in Landlord's reasonable judgment, considers advisable and necessary for the purpose of reletting the Premises, and the making of such alterations, repairs, replacements, and decorations shall not operate or be construed to release Tenant from liability hereunder as aforesaid.

14.7. Mention in this Lease of any particular remedy shall not preclude Landlord or Tenant from any other remedy, in law or in equity.

15. Destruction, Fire or other Casualty.

15.1. If the Building, Premises or any improvement therein, excepting all items which Tenant is obligated to insure pursuant to Section 10.1 of this Lease, now or hereafter erected in or upon the Building shall be damaged or destroyed, by fire, storm, earthquake or other casualty, then, Tenant shall give prompt notice thereof to Landlord and Landlord shall, at Landlord's cost and expense proceed with reasonable diligence to conduct any necessary demolition and to repair and restore the Building or such improvements.

15.2. Landlord shall have no obligation to repair or replace any of Tenant's furniture, equipment or supplies destroyed by fire, storm, earthquake, water or other casualty.

15.3. If (a) more than fifty (50%) percent of the Premises is damaged

or destroyed or (b) the Building is damaged or destroyed to the extent that the Premises or access thereto cannot, with reasonable diligence, be fully repaired or restored by Landlord within one hundred eighty (180) days after the date of the damage or destruction, notwithstanding the fact that the Premises may have not been damaged or destroyed, or (c) Landlord elects to demolish the Building following a substantial casualty, either party may terminate this Lease. The terminating party shall notify the other party of its determination, in writing, within sixty (60) days after the date of the damage or destruction. If the Premises can be fully repaired or restored within the one hundred eighty (180) day period, or if such repair or restoration cannot be made within said period but neither party elects to terminate this Lease, this Lease shall remain in full force and effect, and Landlord shall diligently repair and restore the damage as soon as reasonably possible, subject to the provisions of Section 15.1 herein.

15.4. If the Premises are partially destroyed or damaged and Landlord repairs or restores them pursuant to the provisions of this Article, the Fixed Rent and Additional Rent payable hereunder for the period during which such damage, repair or restoration continues shall be abated in proportion to the degree to which Tenant's reasonable use of the Premises is substantially impaired. Except for abatement, if any, of Fixed Rent and Additional Rent, Tenant shall have no claim against Landlord for any damages suffered by reason of any such damage, destruction, repair or restoration.

16. Condemnation.

16.1. If the Building or such part thereof as will render the Premises unsuitable for Tenant's reasonable use shall be acquired or condemned for any public or quasi-public use or purpose, this Lease shall end as of the date of the vesting of title in the condemning authority.

16.2. In the event of any such acquisition or condemnation of all or any part of the Premises, Landlord shall be entitled to receive the entire award for any such acquisition or condemnation. Tenant shall have no claim against Landlord or the condemning authority for the value of any unexpired portion of the Term and Tenant hereby expressly assigns to Landlord all of its right, title and interest in and to any such award, and also agrees to execute any and all further documents that may be required in order to facilitate the collection thereof by Landlord. Nothing contained herein shall be deemed to prevent Tenant from making a separate claim in any condemnation proceedings for any moving expenses, for the value of any of Tenant's property which would be removable at the end of the Term pursuant to the provisions of this Lease or for other damages which do not detract from or reduce Landlord's share of the award.

17. Subordination.

17.1. This Lease and the term and estate hereby granted are and shall be subject and subordinate to the lien of each mortgage which may now or at any time hereafter affect all or any portion of the Premises or Landlord's interest

therein and to all ground leases which may now or at any time hereafter affect all or any portion of the Premises (any such mortgage or ground lease being herein called a "Superior Mortgage") and each and every advance made or hereafter to be made under a Superior Mortgage and to all renewals, modifications, replacements, substitutions and extensions of a Superior Mortgage. The foregoing provisions for the subordination of this Lease and the term and estate hereby granted to the holder of a Superior Mortgage shall be self-operative and no further instrument shall be required to effect any such subordination; provided, however, at any time and from time to time, upon not less than ten (10) days' prior notice by Landlord, Tenant shall execute, acknowledge and deliver to Landlord any and all reasonable instruments that may be necessary or proper to effect such subordination or to confirm or evidence the same. Provided that Tenant is not in default (beyond any period given Tenant to cure such default) in the payment of Fixed Rent or Additional Rent or in the performance of any of the terms, covenants, or conditions of this Lease on Tenant's part to be performed, and subject to the terms and conditions of this Lease, Tenant's rights and privileges under this Lease, or any extensions, expansions or renewals shall not be defeated by any holder of a Superior Mortgage. Landlord agrees that if at any time during the Term, this Lease is subject to a Superior Mortgage, Landlord shall use all reasonable efforts to obtain from the holder of such Superior Mortgage, a non-disturbance agreement in form and substance reasonably satisfactory to the holder of such Superior Mortgage.

17.2. If all or any portion of Landlord's estate in the Premises shall be sold or conveyed to any person, firm or corporation upon the exercise of any remedy provided for in any Superior Mortgage or by law or equity, such person, firm or corporation and each person, firm or corporation thereafter succeeding to its interest in the Premises (a) shall not be bound by any payment prior to such sale or conveyance of Fixed Rent, Additional Rent or other payments for more than one month in advance (except prepayments in the nature of security for the performance by Tenant of its obligations hereunder), and (b) shall be liable for the keeping, observance and performance of the other covenants, agreements, terms, provisions and conditions to be kept, observed and performed by Landlord under this Lease.

17.3. In the event of an act or omission by Landlord which would give Tenant the right to terminate this Lease or to claim a partial, total or constructive eviction, Tenant will not exercise any such right until it has given written notice of such act or omission, or, in the case of the Premises or any part thereof becoming untenantable as the result of damage from fire or other casualty, written notice of the occurrence of such damage, to the holder of any Superior Mortgage whose name and address shall previously have been furnished to Tenant in writing, by delivering such notice of such act, omission or damage addressed to such holder at said address or if such holder hereafter furnishes another address to Tenant in writing at the last address of such holder so furnished to Tenant, and, unless otherwise provided herein, until a reasonable period for remedying such act, omission or damage shall have elapsed following such giving of such notice, provided any such holder, with reasonable

diligence, shall, following the giving of such notice, promptly (a) state in writing its intention to remedy such act, omission or damage and (b) commence and continue to remedy such act, omission or damage or to cause the same to be remedied.

17.4. If, in connection with obtaining financing for the Premises or refinancing any Superior Mortgage, the prospective lender requests reasonable modifications to this Lease as a condition precedent to such financing or refinancing, then Tenant hereby covenants and agrees not to unreasonably withhold, delay or condition its consent to such modifications, provided such modifications do not increase the Fixed Rent or Additional Rent, do not reduce the length of the Term, do not materially and adversely affect the leasehold interest created by this Lease or the rights of Tenant hereunder and do not materially and adversely affect the manner in which Tenant's operations are conducted at the Premises.

18. Indemnification and Hold Harmless.

18.1. Tenant, on behalf of itself and any party holding by, through or under Tenant, agrees to indemnify and hold harmless Landlord, its agents, contractors, employees, in the following manner:

(a) against any default under this Lease by Tenant or any party holding by, through or under Tenant for any direct damages, costs, claims or liabilities, including reasonable attorneys' fees, sustained by Landlord or any party holding by, through or under Landlord as a result of such default;

(b) against any and all claims, damages, losses and liabilities, including reasonable attorneys' fees, whatsoever their nature, cause or origin, excluding, however, loss of profit, special, indirect or consequential damages, attributable in any manner to the omission, fault, willful act, negligence or other misconduct of Tenant, its agents, contractors, employees, licensees or invitees arising out of the use and occupancy of the Premises by Tenant, its agents, contractors, employees, licensees or invitees;

(c) against any and all damage or injury to the Premises, to Tenant, its agents, contractors, employees, licensees, or invitees except to the extent same is attributable to the omission, fault, willful act, negligence or other misconduct of Landlord, its agents, contractors, employees, licensees or invitees;

(d) Tenant hereby absolutely and unconditionally indemnifies, defends and holds Landlord free and harmless of, from and against any and all claims, costs, expenses, liabilities, losses, liens, encumbrances, fees, damages, judgments, penalties, causes of action and other charges of whatsoever kind or nature (including, without limitation, attorneys' fees and disbursements and the fees and expenses of any environmental and analytical laboratories, consultants and engineers) suffered or incurred by Landlord, including the cost of any required or necessary repair, removal, remediation, clean-up,

detoxification and any action required, necessary or otherwise taken prior to or following a transfer of title to the Premises or any portion thereof, and arising from (i) the violation of any of the Environmental Laws (as hereinafter defined) by Tenant, as same shall affect all or any part of the Premises, (ii) the release by Tenant of any Hazardous Materials (as hereinafter defined) in, on, under, the Premises or any part thereof and (iii) any Hazardous Activity (as hereinafter defined) by Tenant at or in connection with the Premises or any part thereof. The obligations of Tenant referred to in this Paragraph (collectively, the "Toxic Waste Obligations") shall continue notwithstanding the satisfaction, discharge, release, termination or cancellation of the Lease;

(e) Tenant covenants and agrees that the Premises shall at all times hereafter be maintained, occupied, operated and maintained in strict compliance with all of the Environmental Laws. Tenant shall at all times maintain in full force and effect all necessary permits, licenses, approvals and other authorizations required under the Environmental Laws for the Premises and the use or intended use thereof. Tenant shall provide Landlord with a copy of any request for information or any inspection of the Premises by any Governmental Authority with respect to any Hazardous Materials or Hazardous Activity and a copy of any response to each such request or inspection and any written notice of any pending or threatened proceeding, advice or inquiry concerning the Premises (or any portion thereof) which relates to any Hazardous Materials, Hazardous Activity, or pollution or protection of the environment, promptly after delivery thereof. Tenant shall, promptly upon gaining notice thereof, notify Landlord in writing of any release, discharge or spill of any Hazardous Materials in, on, under or about the Premises or the existence of any Hazardous Materials emanating from or passing through the Premises; and

(f) For purposes of this Article 18, the following terms shall have the following meanings:

(i) "Environmental Laws" shall mean all present and future federal, state and local environmental, health and safety laws, rules, statutes, directives, binding interpretations, binding policies, ordinances and regulations now or hereafter in effect and as same have been or may hereafter be amended, modified or supplemented, from time to time, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (42 U.S.C. Section 9601, et seq.), the Resource Conservation and Recovery Act of 1976 (42 U.S.C. Section 6901 et seq.), the Hazardous Materials Transportation Authority Act of 1994 (49 U.S.C. Section 5101 et seq.), the Water Pollution Control Act (33 U.S.C. Section 1251 et seq.), the Safe Drinking Water Act (42 U.S.C. Section 300h et seq.), the Clean Air Act (42 U.S.C. Section 1857 et seq.), the Solid Waste Disposal Act (42 U.S.C. Section 6901 et seq.), the Toxic Substances Control Act (15 U.S.C. Section 2601 et seq.), the Emergency Planning and Community Right-to-Know Act of 1986 (42 U.S.C. Section 11001 et seq.), the Radon Gas and Indoor Air Quality Research Act of 1986 (42 U.S.C. Section 7401 note, et seq.), the Superfund Amendments and Reauthorization Act of 1986 (42 U.S.C. Section 11001 et seq.), the Pollution Prevention Act of 1990 (42 U.S.C. Section 13101 et seq.) and the counterparts of such statutes as enacted

by state and local governments with jurisdiction over the Premises or Tenant or any principal, partner, shareholder, officer or director of Tenant, and any and all rules and regulations promulgated under any and all of the aforementioned laws, including but not limited to, the Industrial Site Recovery Act (N.J.S.A. 13:1K-6 et. seq.) and the New Jersey Spill Act (N.J.S.A. 58:10-23.11 et. seq.)

(ii) "Hazardous Materials" shall mean any substances defined or identified as "hazardous substances", "hazardous wastes", "toxic wastes", "toxic substances" or "pollutants" in any of the Environmental Laws, including, without limitation, asbestos or asbestos-containing materials, polychlorinated biphenyls, fuel oil, petroleum, hazardous waste and any other hazardous or toxic substances, contaminants, materials or pollutants.

(iii) "Hazardous Activity" shall mean the disposal, generation, handling, manufacturing, processing, production, refinement, storage, transfer, transportation and/or use of Hazardous Materials in, on, under or about the Premises or any part thereof in violation of any Environmental Law.

19. Landlord's Obligations.

19.1. Except as otherwise provided in this Lease, Landlord shall operate and maintain the Building and its grounds, exclusive of Tenant's recreational areas, if any, in first class condition and agrees to keep in good order, condition and repair the roof, Common Areas, exterior walls and structure of the Building and its grounds (including all plumbing, mechanical and electrical systems), all insofar as they affect the Premises, except that Landlord shall in no event be responsible to Tenant for any condition in the Premises, the grounds, or the Building caused by any act or neglect of Tenant, its invitees or contractors. Landlord shall not be responsible to make any improvements or repairs to the Building or the grounds other than as provided in this Section unless expressly provided otherwise in this Lease.

19.2. Landlord shall not be liable to Tenant for any compensation or reduction of Fixed Rent or Additional Rent by reason of inconvenience or annoyance or for loss of business arising from the necessity of Landlord or its agents entering the Premises for any of the purposes in this Lease authorized, or for repairing the Premises or any portion of the Building. In case Landlord is prevented or delayed from making any repairs, alterations or improvements, or furnishing any services or performing any other covenant or duty to be performed on Landlord's part, by reason of an Unavoidable Delay, as defined in Section 38.2, Landlord shall not be liable to Tenant therefor, nor shall Tenant be entitled to any abatement or reduction of rent by reason thereof unless and until Tenant's occupancy is thus substantially impaired for a period of sixty (60) days, nor shall the same give rise to a claim in Tenant's favor that such failure constitutes actual or constructive, total or partial, eviction from the Premises. If Tenant's occupancy is substantially impaired for more than one hundred and eighty (180) days, then Tenant may elect to terminate this Lease.

19.3. Landlord represents that, to the best of its knowledge, which knowledge is based solely upon the findings set forth in that certain Phase I Environmental Site Assessment dated October, 1997, prepared by ENSR Consulting and Engineering, referenced as Report Number 4738-014-E01, no Hazardous Materials or wastes have been used, treated or stored on the Premises in violation of any Environmental Laws. Landlord hereby agrees to indemnify and hold harmless Tenant and its shareholders, directors, officers and employees from and against any and all claims, damages, losses and liabilities, including reasonable attorneys fees, arising from any use, treatment or storage of Hazardous Materials on the Property prior to the commencement date of the Existing Lease. Notwithstanding anything to the contrary contained in this Section 19.3, in no event shall Landlord be deemed to be in breach of the representation contained herein, or have an obligation to indemnify Tenant, for any Hazardous Materials or wastes placed on the Property by Tenant, its employees, agents, contractors and invitees (other than Landlord, its employees, agents, contractors and invitees).

19.4. Landlord or its agents shall not be liable for any loss of or damage to any property of Tenant by theft, nor for any injury or damage to persons or property resulting from any cause of whatsoever nature; nor shall Landlord or its agents be liable for any such damage caused by other tenants of the Building or persons, in, upon or about the Premises or caused by operations in construction of any private, public or quasi-public work. The foregoing shall not limit Landlord's obligations as set forth herein, including to provide quiet enjoyment, to fund improvements, to provide environmental indemnity and to make Common Area and system improvements.

20. Cumulative Remedies.

20.1. The rights given to Landlord herein are in addition to any rights that may be given to Landlord by any statute or otherwise.

21. Advances by Landlord.

21.1. If Tenant shall fail to perform any term, covenant or agreement contained herein to be performed by Tenant, upon thirty (30) days advance written notice to Tenant, Landlord may elect to make advances to perform the same or to cause the same to be performed, in which event Tenant shall pay to Landlord all such sums reasonably advanced by Landlord, as Additional Rent, on the date on which the next installment of Fixed Rent is due hereunder following delivery by Landlord of an invoice therefor. All such sums advanced by Landlord

shall accrue interest commencing on the date of Landlord's advance at the higher of 12% per annum, or the then prime rate of Citibank, N.A. announced publicly from its New York City Office (the "Prime Rate") but in no event higher than the highest rate of interest permitted by law computed from the date of each advance to the date such sums are paid to Landlord. Anything to the contrary herein notwithstanding, any such advances made by Landlord shall not be or be deemed a waiver of any default on the part of Tenant in the observance of the terms,

covenants and agreements under this Lease or of any rights or remedies of Landlord upon any such default.

22. No Waiver by Landlord.

22.1. The failure of Landlord to insist in any instance on strict performance of any covenant or condition hereof, or to exercise any option herein contained, shall not be construed as a waiver of such covenant, condition or option in any other instance. Unless otherwise expressly provided herein, this Lease cannot be changed or terminated except in writing.

23. Landlord's Right to Exhibit the Premises.

23.1. During the last twelve (12) months of the term of this Lease, Landlord or its agents or designees may have admission to the Premises at all reasonable hours and upon advance notice for the purpose of exhibiting the same to prospective lessees of all or any part of the Building.

24. No Acceptance of Surrender.

24.1. No act or thing done by Landlord or Landlord's agents or employees during the Term of this Lease shall be deemed to accept a surrender of the Premises by Tenant and a termination of this Lease, or shall be valid, unless in writing, signed by Landlord.

25. Quiet Enjoyment.

25.1. If and so long as Tenant pays the Fixed Rent, Additional Rent and all other sums agreed to be paid by Tenant under this Lease and promptly and faithfully performs and observes the terms, covenants, and agreements in this Lease provided to be performed and observed by Tenant, Tenant quietly shall have and enjoy the Premises.

26. Estoppel Certificates.

26.1. Within ten (10) days after receipt of request therefor, either party will certify to the other and to any party named by the other party, (a)

that as of the date of such certification, whether or not this Lease is in full force and effect; (b) that, to certifying party's best knowledge, neither party to this Lease is in default in keeping, observing or performing any term, covenant, agreement, provision, condition or limitation contained in this Lease, and whether or not to the best knowledge of the person making such certification, any event has occurred which with the passage of time, the giving of notice, or both would constitute a default hereunder and, if in default, specifying each such default; (c) the last day to which the Fixed Rent and Additional Rent payable under this Lease have been paid; (d) as to Tenant, that Tenant neither has nor claims to have any right of set-off or deduction against the payment of Fixed Rent or Additional Rent, or if a right of set-off or

deduction is alleged, specifying the nature and extent thereof; and (e) as to Tenant, any other information reasonably requested by Landlord.

27. Parking.

27.1. Tenant will be provided with parking in accordance with the Building Plans. Landlord shall provide Tenant with no less than 3.8 cars per 1,000 rentable square feet of Tenant's office space. No other tenant of the Building shall have a right to a greater ratio of parking space per rentable square feet.

28. Notices.

28.1. Any and all notices, consents, approvals, requests and other communications (collectively, "notices") required to be given or served by the terms and provisions of this Lease, either by Landlord to Tenant, or by Tenant to Landlord, shall be in writing and signed by the party giving the notice, or by a duly authorized officer or representative of a corporate party, and shall be deemed to have been delivered when postmarked and delivered by hand or sent by certified or registered mail, return receipt requested or by a reputable overnight courier service, proper postage prepaid and addressed to the party to be notified. Notice on behalf of either party shall be addressed to that party at the address set forth below, or to such other address as that party hereafter shall furnish in writing to the other party:

To Landlord:

Ms. Debra Kloper
Route 10 Joint Venture
c/o MONY Real Estate
Investment Management
1740 Broadway
New York, New York 10019

with a copy to:

Robert A. Klausner, Esq.
Shanley & Fisher, P.C.
131 Madison Avenue
Morristown, New Jersey 07962-1979

with a copy to:

Brad Fenlon
Edward S. Gordon Co., Inc.
Park 80 West, Plaza One
Saddle Brook, New Jersey 07663

To Tenant:

Dialogic Corporation
1515 Route 10
Parsippany, New Jersey 07054
Attention: President

with a copy to:

Dialogic Corporation
1515 Route 10
Parsippany, New Jersey 07054
Attention: General Counsel and Real Estate and
Facilities Manager

29. Bind and Inure.

29.1. The terms, covenants and conditions contained in this Lease shall bind and inure to the benefit of the successors and assigns of the parties with the same effect as if mentioned in each instance where a party is named or referred to, except that no violation of the provisions of Article 12 shall operate to vest any rights in any successor or assignee of Tenant.

29.2. Nothing contained in this Lease shall be deemed to confer upon any tenant, or anyone claiming under or through any tenant, any right to insist upon, or to enforce against Landlord or Tenant, the performance or observance by Tenant of its obligations hereunder. Landlord shall enforce the Rules and Regulations against all tenants of the Building.

30. Waiver of Trial by Jury.

30.1. Landlord and Tenant hereby waive trial by jury in any action, proceeding or counterclaim brought by either against the other on any matter whatsoever arising out of or in any way connected with this Lease.

31. Brokerage Fees.

31.1. Each party represents that there was no broker(s) instrumental in consummating this Lease except Edward S. Gordon Company ("ESG"). Each party agrees to hold the other harmless from and against any and all claims or demands for brokerage commissions arising out of or in connection with the execution of this Lease based on conversations or negotiations with such party on the part of any broker, other than ESG, whose fees shall be paid by Landlord in accordance with separate agreements between such broker and Landlord.

32. Execution.

32.1. This Lease may be executed in counterparts, each of which, when taken together, shall constitute one and the same agreement.

33. Recordation of Lease.

33.1. In no event shall Tenant have the right to record this Lease and any such recording shall constitute an Event of Default. Landlord and Tenant shall record a memorandum of this Lease in form and substance reasonable satisfactory to both parties.

34. Surrender.

34.1. On the last day of the Term, or upon any earlier termination of this Lease, or upon any reentry by Landlord upon the Premises, Tenant shall, at its own expense, quit and surrender the Premises to Landlord broom clean, in good order, condition and repair except for ordinary wear, tear and damage by fire or other insured casualty, together with all improvements which have been made upon the Premises (except as otherwise provided for in this Lease, including, but not limited to, in Sections 6 and 7 hereof). Tenant shall remove from the Premises and the Building all of Tenant's furniture, trade fixtures and equipment and all personal property and personal effects of all persons claiming through or under Tenant, except as previously agreed by Landlord, and Tenant shall pay the cost of repairing all damage to the Premises and the Building occasioned by such removal and shall deliver all keys and pass cards to Landlord. Notwithstanding anything to the contrary contained in this Section 34.1, at the end of the term of this Lease, Tenant shall not have the obligation to remove from the Premises raised flooring, staircases, vaults or the improvements in the engineering offices.

34.2. If the Premises are not surrendered at the expiration of the Term, Tenant shall indemnify Landlord against loss or liability resulting from delay by Tenant in so surrendering the Premises, including any claims made by any succeeding Tenant founded on such delay. If the Premises shall not be surrendered upon the termination of this Lease, unless otherwise agreed by Landlord and Tenant, Tenant shall be deemed to be occupying the Premises as a Tenant from month-to-month, subject to all the terms and provisions of this Lease insofar as the same are applicable to month-to-month tenancy, at a monthly rental equal to twice the sum of: (i) the monthly installments of Fixed Rent and Additional Rent, and (ii) the Monthly Tax Payment for the last month of the Term.

34.3. Tenant's obligations under this Article shall survive the Expiration Date or sooner termination of this Lease.

35. Access: Change in Facilities.

35.1. Landlord reserves the right, at any time, without incurring any liability to Tenant therefor, to make such changes in or to the Building and the fixtures and equipment of the Building, as well as in the entrances, passageways, halls, doors, doorways, corridors, elevators, escalators, stairs, toilets and other public parts of the Building, as it may reasonably deem

necessary or desirable, provided any such change does not materially and adversely affect Tenant's access to or use of the Premises.

35.2. Tenant shall permit Landlord to install, use and maintain pipes, ducts and conduits within or through the Premises, or through the walls, columns and ceilings therein, provided that the installation work is performed at such times and by such methods as will not unreasonably interfere with Tenant's use and occupancy of the Premises, or damage the appearance thereof.

35.3. Landlord or Landlord's agents shall have the right to enter the Premises at all times for any of the purposes specified in this Article and (a) to examine the Premises or for the purpose of performing any obligation of Landlord or exercising any right or remedy reserved to Landlord in this Lease; (b) to exhibit the Premises to others; (c) to make such decorations, repairs, alterations, improvements or additions, or to perform such maintenance, including the maintenance of all air-conditioning, elevator, plumbing, electrical, sanitary, mechanical and other service or utility systems as Landlord may reasonably deem necessary or desirable; (d) to take all materials into and upon the Premises that may be required in connection with any such decorations, repairs, alterations, improvements, additions or maintenance; and (e) to alter, renovate and decorate the Premises at any time during the Term if Tenant shall have removed all or substantially all of Tenant's property from the

Premises. If practical, under the circumstances, Landlord shall give Tenant notice and use its best efforts to give Tenant notice of such entry.

35.4. The exercise of any right reserved to Landlord in this Article shall not constitute an actual or constructive eviction, in whole or in part, or entitle Tenant to any abatement or diminution or rent, or relieve Tenant from any of its obligations under this Lease, or impose any liability upon Landlord or Landlord's agents.

36. Integration of Agreement.

36.1. This Lease contains the entire agreement of the parties hereto and no representations, inducements, promises or agreements, oral or otherwise, between the parties not embodied herein, shall be of any force or effect. If any term or provision of this Lease shall be invalid or unenforceable, the remaining terms and provisions hereof shall not be affected thereby. If the application of any term or provision of this Lease to any person or circumstance shall to any extent be invalid or unenforceable such term or provision shall remain applicable as to those persons or circumstances to which it shall be valid and enforceable to the fullest extent permitted by law.

37. [INTENTIONALLY DELETED]

38. Unavoidable Delays.

38.1. In the event Landlord or Tenant shall be delayed in the

performance of any act or obligation hereunder by reason of Unavoidable Delays, then performance of such act or obligation shall be excused for the period of the delay, the period for the performance of any such act or obligation shall be extended for a period equivalent to the period of such delay.

38.2. "Unavoidable Delays" shall mean any and all delays beyond a party's reasonable control, including, without limitation, delays caused by the other party, governmental restrictions, governmental regulations, controls, undue delays, order of civil, military or naval authority, governmental preemption, strikes, labor disputes, lock-outs, shortage of labor or materials, inability to obtain materials or reasonable substitutes therefor, default of any Building or construction contractor or subcontracts, Acts of God, fire, earthquake, floods, explosions, actions of the elements, extreme weather conditions, undue precipitation, other weather conditions, enemy action, civil commotion, riot or insurrection, fire or other unavoidable occurrence.

39. Rules and Regulations.

39.1. Tenant and Tenant's servants, employees, agents, visitors and licensees shall observe faithfully and comply strictly with any reasonable Rules and Regulations for the Building as Landlord, or Landlord's agents, may from time to time adopt. Notice of any such Rules or Regulations shall be given in such manner as Landlord may elect. Landlord shall take all reasonable steps to enforce such Rules and Regulations, or terms, covenants, or conditions in any other lease, as against all other tenants. Providing that Landlord is seeking to enforce such Rules and Regulations through all reasonable efforts, Landlord shall not be liable to Tenant for violation of the same by any other tenant, its servants, employees, agents, visitors, or licensees. In the event any such Rule or Regulation conflicts with any provision of this Lease, said provision of this Lease shall control. The current Rules and Regulations in effect with respect to the Building are attached hereto as Exhibit D and make a part hereof.

40. Governing Law.

40.1 This Lease shall be construed and enforced in accordance with the Laws of the State of New Jersey.

41. Landlord Liability.

41.1. Tenant agrees to look solely to Landlord's estate and interest in the Building and the Premises for the satisfaction of any right or remedy of Tenant for the collection of a judgment (or other judicial process) requiring the payment of money by Landlord, in the event of any liability of Landlord, and not other property or assets of Landlord and no property or assets of any shareholder, director, officer or principal of Landlord shall be subject to levy, execution, attachment, or other enforcement procedure for the satisfaction of Tenant's remedies under or with respect to this Lease, the relationship of Landlord and Tenant hereunder, or Tenant's use and occupancy of the Premises, or any other liability of Landlord to Tenant.

42. Signage.

42.1 As long as Tenant occupies 75% or more of the Building, Tenant, at Tenant's own cost and expense, shall have the right to apply for a permit which allows Tenant to erect a sign directly on the Building. Prior to making any application to the applicable Government Authority for a permit for such sign, Landlord shall approve all plans regarding this sign and the applications for approval to be submitted to the Government Authority. Any condition, restriction or encumbrance on the Property as a condition of obtaining the

permit to place such sign on the Building must be approved by Landlord in its sole and absolute discretion. The installation of any sign which has been properly approved by such Government Authority shall, at the election of Landlord, be installed by either Landlord or Tenant. If Landlord elects to install such sign, Tenant shall reimburse Landlord for the Costs of such installation within thirty (30) days after receipt of the invoice of the Costs therefor. At the end of the term of this Lease, Tenant shall remove such sign and if there is any damage to the Building Tenant shall, at its sole cost and expense, repair such damage and restore the Building to the condition it was in prior to the installation of such sign. Landlord, at its sole election, may elect to remove such sign and repair any damage to the Building and, if such election is made by Landlord, Tenant shall reimburse Landlord for such Costs within thirty (30) days after receipt of an invoice therefor.

43. Arbitration.

43.1 Except as provided in Paragraphs 14.1(b) and (c), the parties hereto consent to arbitration of all disputes.

43.2 The party desiring arbitration shall give notice to that effect to the other party. Within ten (10) days thereafter, the party not requesting arbitration shall propose three (3) arbitrators and the other party shall select one (1) of the three (3).

43.3 The arbitrator shall be a fit and impartial person who shall have had at least 10 years experience in the State of New Jersey in a calling connected with the matter of the dispute and shall have no prior, present or proposed future affiliation or connection with either party.

43.4 The arbitration shall be conducted to the extent consistent with this Article in accordance with the then prevailing rules of the American Arbitration Association (or any organization successor thereto). The decision and award shall be rendered by the Arbitrator within 30 days after the appointment of the Arbitrator. Such decision and award shall be in writing and shall be final and conclusive on the parties and counterpart copies thereof shall be delivered to each of the parties. In rendering such decision and award, the Arbitrator shall not add to, subtract from or otherwise modify the provisions of this Lease. Judgment may be had on the decision and award of the

Arbitrator so rendered in any court of competent jurisdiction.

43.5 Each party shall pay the fees and expenses of the Arbitrator and all other expenses of the arbitration (other than the fees and disbursements of attorneys or witnesses for each party) shall be borne by the parties equally.

43.6 Notwithstanding anything to the contrary elsewhere provided in this Lease, if the subject matter of a dispute which is provided in this Lease to be determined by an arbitration is (a) one which would directly affect the liability of an insurer under any of the policies of insurance referred to herein and the party which is the insured under such policy so notifies the other party or (b) one which cannot be the subject of arbitration under a Superior Mortgage, then unless such insurer or the holder of a Superior Mortgage gives its written consent to the determination of such matter by arbitration, the dispute shall not be determined by arbitration and the parties shall be left to such other remedies as they may have.

44. Notice of Sale.

44.1 (a) If during the Term Landlord has a bona fide intent to sell the Property, prior to marketing the Property Landlord shall deliver to Tenant a proposal containing the terms and conditions upon which Landlord would sell the Property. Within thirty (30) days after the delivery of such proposal, Landlord and Tenant shall meet and use good faith efforts to enter into a letter of intent regarding the sale of the Property to Tenant upon terms and conditions acceptable to both parties. If Landlord and Tenant fail to enter into a letter of intent within such thirty (30) day period, neither party shall have any obligations to the other pursuant to this Section 44 and Landlord shall be free to sell the Property at any time to any party upon any terms and conditions agreed to by Landlord, whether or not such terms are consistent with the terms set forth in the proposal delivered to Tenant. Tenant expressly agrees that it shall have no claim or cause of action against Landlord, its affiliates and their respective employees, agents, directors, shareholders and officers in the event a mutually acceptable letter of intent is not entered into, regardless of the reason, and Tenant expressly waives any claims or causes of actions it may have against any such parties based upon any claimed breach of any obligation of good faith, fair dealing or the like.

(b) Subsequent to Landlord and Tenant's failure to enter into a letter of intent, Tenant shall, within ten (10) days after demand therefor by Landlord, confirm in writing that Tenant has no further rights regarding the purchase of the Property.

(c) Landlord shall have no obligation to submit a proposal to Tenant pursuant to the terms hereof, if: (i) the named Tenant has assigned this Lease or has at any time subleased, in the aggregate, more than 30% of the Premises to a party which is not a parent or subsidiary of Tenant; or (ii) Tenant shall be in default of any of its obligations hereunder and such default

shall not have been cured at the time of Landlord intends to commence marketing the Property for sale.

(d) This Section shall not preclude preliminary discussions, either oral or written, between Landlord and any prospective purchaser regarding the sale of the Property.

(e) The termination of this Lease during the Term shall also terminate Landlord's obligations pursuant to the terms of this Section 44. Nothing contained in this Section shall prevent Landlord from exercising any right or action granted to or reserved by Landlord in this Lease to terminate this Lease. Tenant's rights set forth in this Section 44 may not be severed from this Lease or separately sold, assigned or transferred and is only exercisable by Dialogic Corporation.

(f) The provisions of this Section shall only be in full force and effect as long as Dialogic Corporation has not failed to exercise its rights under this Section 44.1 on any prior occasion, and The Mutual Life Insurance Company of New York, or an affiliate thereof (other than as provided for in the immediately succeeding sentence) is the Landlord. The provisions of this Section shall not be applicable to or binding upon any subsequent owner of the Property, including, but not limited to, an investment fund, joint venture, partnership, real estate investment trust or any other entity in which The Mutual Life Insurance Company of New York retains an interest.

IN WITNESS WHEREOF, the parties have hereunto set their hands and seals as of the date first written above.

THE MUTUAL LIFE INSURANCE COMPANY OF NEW YORK
Landlord

By: /s/ _____
Name:
Title:

DIALOGIC CORPORATION
Tenant

By: /s/ _____
Name:
Title:

OFFICE LEASE

1515 ROUTE TEN

PARSIPPANY, NEW JERSEY

Lease Summary

Landlord: The Mutual Life Insurance Company of New York

Landlord's Address: 1740 Broadway, New York, NY 10019

Tenant: Dialogic Corporation

Tenant's Address: 1515 Route 10, Parsippany, NJ 07054

Tenant's Space: Total - 67,000 square feet

Annual Fixed Rent: Approximately 67,000 square feet office

Office: Lease Years	Fixed Rent Per Year	Monthly Installment	Rent Per Square Foot
Years 1-2	\$	\$	\$23.50*
Years 3-4	\$	\$	\$25.00*
Years 5-6	\$	\$	\$26.50*
Years 7-8	\$	\$	\$28.00*
Years 9 - Expiration Date	\$	\$	\$29.50*

* Plus Tenant's electric, in the event the Lease does not encumber the entire Building, pursuant to Section 4.13.

ELECTRICITY RENT: Tenant to pay all Tenant's Electric which will be directly metered

LEASE TERM COMMENCEMENT DATE: _____

LEASE TERM EXPIRATION DATE: _____

BASE OPERATING EXPENSE YEAR: Shall be the 12 month period following the Commencement Date.

BASE TAX YEAR: Shall mean an amount equal to the product of (a) the real estate tax rate in effect for the year in which the Premises are substantially

completed in accordance with Section 6.5, and (b) the assessed value of the Building as of the date the Building is fully assessed as a completed and fully

occupied Building. If the Building is not fully assessed by the last day of the year in which the Premises is substantially completed, Landlord shall make a reasonable determination of the Base Taxes, which determination shall be adjusted when the Building is fully assessed by the appropriate taxing authority.

OPTION TO RENEW: Two (2) five year options with Fixed Rent during each option period being the greater of (i) the average of the Fixed Rent paid by Tenant for the 5 preceding years immediately prior to the applicable option period, and (ii) 95% of the fair market rent, as determined in accordance with Section 3.1(c).

RENTABLE FLOOR AREA OF Tenant's OFFICE SPACE: 67,000 square feet, subject to identification and measure by BOMA method

SECURITY DEPOSIT: None

TENANT'S PROPORTIONATE SHARE: 100%

TENANT'S SIC NUMBER: 7373

EXHIBIT A

DESCRIPTION

All that parcel of land located in the Township of Parsippany-Troy Hills and the Township of Hanover, County of Morris and State of New Jersey which is more particularly described by the following legal metes and bounds description:

BEGINNING at a point in the newly dedicated Southwesterly sideline of New Jersey State Highway Route 10, said point of beginning being distant the following 2 courses along said sideline, as measured Southwesterly from its point of intersection with the Southeasterly sideline of Johnson Road:

(a) along the Southwesterly sideline of New Jersey State Highway Route 10, South 48 degrees 33 minutes 20 seconds East 1473.83 feet to a jog therein;

(b) partially along the 2nd line of Lot 1.01 South 41 degrees 03 minutes 46 seconds West 20.00 feet to the beginning corner of the herein described premises and running:

THENCE (1) along the newly dedicated Southwesterly sideline of New Jersey State Highway Route 10, South 48 degrees 33 minutes 20 seconds East 931.5 feet to a point;

THENCE (2) along the Southeasterly line of the whole tract, of which this parcel is a part, South 39 degrees 30 minutes 25 seconds West 852.23 feet to a point;

THENCE (3) along the Southwesterly line of the whole tract, of which this parcel is a part, North 49 degrees 34 minutes 20 seconds West 505.89 feet to a point;

THENCE (4) still along same, North 48 degrees 56 minutes 14 seconds West 235.11 feet to a point;

THENCE (5) along the 4th line, reversed, of Lot 1.01, North 41 degrees 03 minutes 46 seconds East 276.88 feet to a point;

THENCE (6) along the 3rd line, reversed, of said Lot 1.01, North 48 degrees 56 minutes 14 seconds West 213.78 feet to a point in the centerline of a heavy duty road;

THENCE (7) along the centerline of said heavy duty road, and partially along the 2nd course, reversed, of Lot 1.01 North 41 degrees 03 minutes 46 seconds East 586.89 feet to the place of BEGINNING.

KNOWN and designated as Lot 1.02 in Block 200 on the Official Tax Map of the Township of Parsippany-Troy Hills, County of Morris, State of New Jersey and Lots 13 and 14 in Block 303 on the Official Tax Map of the Township of Hanover, County of Morris and State of New Jersey.

EXHIBIT B

BASE BUILDING IMPROVEMENTS

EXHIBIT C

CLEANING AND ROUTINE MAINTENANCE SERVICE

[Cleaning and Routine Maintenance Service will be provided only for conventional office space, which space is reflected on the plans on the following page, as follows:

NIGHTLY

Empty and clean wastepaper baskets, ashtrays and other receptacles. Tenant shall segregate all recyclables as required by law prior to Landlord's removal of same.

Sweep all flooring, vacuum clean or carpet sweep (as required) all carpets and rugs. Sweep or dust stone, ceramic tile, marble, terrazzo and other unwaxed flooring, excluding kitchen area (cleaning of kitchen is Tenant's responsibility).

Dust and wipe clean all office furniture and window sills.

Wipe clean all water fountains and coolers.

Dust all leather and leather-type furniture.

Replace plastic bags in wastebaskets when necessary - cost per bag charge to Tenant.

Remove normal wastepaper and refuse; cost of unusual waste removal to be charged to Tenant.

After cleaning, all lights shall be turned off, windows closed, doors locked and offices left in an orderly condition.

Bathrooms cleaned and wastebaskets emptied.

Hallways, stairways, elevators, the bridge and the lobby areas shall be cleaned and vacuumed.

MONTHLY

Dust all pictures, frames, charts, graphs, and similar wall hangings not reached in nightly cleaning.

QUARTERLY

Dust all venetian blinds.

ANNUALLY

Dust ceiling surfaces other than acoustical ceiling material and vacuum clean only acoustical materials and other similar surfaces, if necessary.

WINDOW CLEANING

Wash all interior and exterior windows quarterly.

SIDEWALKS, ENTRANCES, ROADWAYS AND PARKING AREAS:

To be kept free and clear of refuse, snow and ice.

AS REQUIRED BY Tenant

Clean inside of all lighting fixtures and globes.

EXHIBIT D

RULES AND REGULATIONS

1. The sidewalks, entrances, driveways, passages, courts, elevators, vestibules, stairways, corridors or halls shall not be obstructed or encumbered by any Tenant or used for any purpose other than for ingress to and egress from the Premises and for delivery of such merchandise and equipment in a prompt and

efficient manner using elevators and equipment and passageways designated for such delivery by Landlord. There shall not be used in any space, or in the public hall of the Building, either by any Tenant or any jobbers or others in the delivery or receipt of merchandise, any hand trucks, except those equipped with rubber tires and sideguards.

2. The water and wash closets and plumbing fixtures shall not be used for any purpose other than those for which they were designed or constructed and no sweepings, rubbish, rags, acids or other substances shall be deposited therein, and the expense of any breakage, stoppage, or damage resulting from the violation of this rule shall be borne by the Tenant who, or whose agents, employees or visitors, shall have caused it.

3. No carpet, rug or other article shall be hung or shaken out of any window of the Building; and no Tenant shall sweep or throw or permit to be swept or thrown from the Premises any dirt or other substances into any of the corridors or halls, elevators, or out of the doors or windows or stairways of the Building, and Tenant shall not use, keep or permit to be used or kept any foul or noxious gas or substance in the Premises, or permit or suffer the Premises to be occupied or used in a manner offensive or objectionable to Landlord or other occupants of the Building by reason of noise, odors and/or vibrations, or interfere in any way with other Tenants or those having business therein, nor shall any animals or birds be kept in or about the Building. Smoking or carrying lighted cigars or cigarettes in the elevators of the Building is prohibited.

4. No awnings or other projections shall be attached to the outside walls of the Building without the prior written consent of Landlord.

5. No sign, advertisement, notice or other lettering shall be exhibited, inscribed, painted or affixed by any Tenant on any part of the outside of the Premises or the Building or on the inside of the Premises if the same is visible from the outside of the Premises without the prior written consent of Landlord, except that the name of Tenant may appear on the entrance door of the Premises and the directory in the lobby of the Building. In the event of the violation of the foregoing by any Tenant, Landlord may remove same without any liability, and may charge the expense incurred by such removal to Tenant or Tenant violating

this rule. Interior signs on doors and directory tablet shall be inscribed, painted or affixed for each Tenant by Landlord at the expense of such Tenant, and shall be of a size, color and style acceptable to Landlord.

6. No Tenant shall mark, paint, drill into, or in any way deface any part of the Premises or the Building. No boring, cutting or stringing of wires shall be permitted, except with the prior written consent of Landlord, and as Landlord may direct.

7. No Tenant shall obtain for use upon the Premises ice, drinking water, towel or other similar services, or accept barbering or bootblacking services in the Premises, except from persons authorized by Landlord, and at hours and under

regulations fixed by Landlord. Canvassing, soliciting and peddling in the Building is prohibited and each Tenant shall co-operate to prevent the same. Notwithstanding the foregoing, Tenant may maintain soda and juice machines and water coolers in the Premises.

8. Landlord reserves the right to exclude from the Building between the hours of 6 P.M. and 8 A.M. and at all hours on Sundays and legal holidays all persons who are not employees of Tenant.

9. Landlord shall have the right to prohibit any advertising by any Tenant, which, in Landlord's opinion, tends to impair the reputation of the Building or its desirability as a Building for offices, and upon written notice from Landlord, Tenant shall refrain from or discontinue such advertising.

10. Tenant shall not bring or permit to be brought or kept in or on the Premises, any inflammable, combustible or explosive fluid, material, chemical or substance, or cause or permit any odors of cooking or other processes, or any unusual or other objectionable odors to permeate in or emanate from the Premises.

11. If the Building contains central air conditioning and ventilation Tenant agrees to keep all windows closed at all times and to abide by any rules and regulations issued by the Landlord with respect to such services. If Tenant requires air conditioning or ventilation after the usual hours, Tenant shall give notice in writing to the building superintendent prior to 3:00 P.M. in the case of services required on weekdays, and prior to 3:00 P.M. on the day prior in the case of after hour service required on weekends or on holidays.

OFFICE LEASE

1515 ROUTE TEN

PARSIPPANY, NEW JERSEY

between

THE MUTUAL LIFE INSURANCE COMPANY OF NEW YORK
(Landlord)

and

DIALOGIC CORPORATION
(Tenant)

Dated: September 30, 1998

TABLE OF CONTENTS

ARTICLE	PAGE
Exhibit A	Description
Exhibit B	Base Building Improvements
Exhibit C	Cleaning and Routine Maintenance Service
Exhibit D	Rules and Regulations

EXHIBIT 10.13

AMENDED AND RESTATED
1997 INCENTIVE BENEFIT PLAN
OF
DIALOGIC CORPORATION

Section 1. Rules of Interpretation; Definitions.

As used in this Incentive Benefit Plan, (i) the singular includes the plural, and the masculine gender includes the feminine and neuter genders, and vice versa, as the context requires; and (ii) the word "person" includes any natural person and any corporation, firm, partnership or other form of association.

For purposes of this Incentive Benefit Plan, the following terms shall have the following meanings:

"Award Authority" means either the Selected Participants Committee or the General Participants Committee, depending upon the context in which such term is used. With respect to Incentives awarded or to be awarded to Selected Participants, the term "Award Authority" refers to the Selected Participants Committee. With respect to Incentives awarded or to be awarded to Participants other than Selected Participants, the term "Award Authority" refers to the General Participants Committee.

"Award Date" means the date on which an Incentive is awarded by the Award Authority.

"Benefit Administration Committee" shall mean a committee of the Board consisting solely of all members of the Compensation Committee who are Disinterested Persons.

"Board" means the Board of Directors of the Company.

"Cash Award" means a cash payment by the Company to a Participant as additional compensation for that Participant's services to the Group.

"Change in Control Event" has the meaning stated in Section 14 hereof.

"Code" means the Internal Revenue Code of 1986, as it may be amended from time to time.

"Common Stock" means the Common Stock, no par value, of the Company.

"Company" means Dialogic Corporation and any successor thereto.

"Compensation Committee" shall mean the Compensation Committee of the

Board, as it may be constituted from time to time.

"Consultant" shall mean any person who performs consulting services for, or who serves as an advisor to, any member of the Group.

"Director" means a member of the Board.

"Disability" means a permanent and total disability as defined in Section 22 of the Code.

"Disinterested Person" means a person who is an "outside director" within the meaning of Section 162(m) of the Code as amended by the Revenue Reconciliation Act of 1993.

"Election" has the meaning stated in Section 13.09(a) hereof.

"Exercise Date" means the date on which the Company receives a notice of the exercise of an Incentive, which notice meets the requirements of the Plan.

"Fair Market Value" has the meaning stated in Section 13.13 hereof.

"General Participants Committee" means a committee of one or more members of the Board, none of whom need be a Disinterested Person, to which the Board has delegated certain authority to administer the Plan under Section 3 hereof.

"Group" means the Company, each "parent corporation" of the Company, and each "subsidiary corporation" of the Company, as these terms are defined in Sections 424(e) and 424(f), respectively, of the Code.

"In Tandem" means that two Incentives are related to each other such that the number of shares subject to the first Incentive is reduced by the number of shares for which the second Incentive is exercised, and the number of shares subject to the second Incentive is reduced by the number of shares for which the first Incentive is exercised.

"Incentive Stock Option" means a stock option intended to qualify as an incentive stock option under Section 422 of the Code.

"Incentives" mean the economic incentives listed in Section 5 hereof that may be awarded under the Plan.

"Named Executive Officer" shall mean (i) any Selected Participant who is named in any proxy statement of the Company as either the chief executive officer of the Company or as one of the five highest paid (in terms of salary and bonus) executive officers of the Company and (ii) any other Selected Participant designated as a "Named Executive Officer" by the Compensation Committee in a notice delivered by the Compensation Committee to the Secretary of the Company.

"Non-Statutory Stock Option" means any Stock Option other than an Incentive Stock Option.

"Participant" means any part-time or full-time employee of, and any Consultant to, any member of the Group to whom an Incentive has been or is to be awarded.

"Performance Stock Right" means a contingent right to receive Shares upon the achievement of certain performance objectives.

"Plan" means this 1997 Incentive Benefit Plan of the Company.

"Qualified Person" means a Participant's legal guardian or legal representative or a deceased Participant's executor, administrator, heir or legatee who has a legal right to or in respect of an Incentive of that Participant.

"Restricted Stock Award" means the award of Shares by the Company to a Participant at a price that may be below Fair Market Value, or without payment to the Company, but these Shares are subject to restrictions on sale and other transfer and are subject to forfeiture.

"Retirement" shall have the meaning ascribed to such term in any retirement plan adopted by the Board. In the absence of any such plan, "Retirement" means (i) the voluntary termination of employment by a Participant who is 59-1/2 years old or older unless, prior to such termination, such Participant advises the Company that he intends to be employed on a full-time basis by an employer that is not a member of the Group or (ii) the voluntary termination of employment by any Participant if the Board determines, prior to such termination, that such termination shall be deemed to be a "Retirement" for purposes of the Plan.

"SAR" means a stock appreciation right relating to the Common Stock and is a right to receive Shares, cash or a combination thereof without payment to the Company.

"Securities Exchange Act" means the Securities Exchange Act of 1934, as it may be amended from time to time.

"Selected Participant" means (i) any person who (x) is identified as an executive officer of the Company in any Annual Report on Form 10-K filed by the Company pursuant to the Securities Exchange Act or (y) has the title of Executive Vice President, President or Chairman of the Board of the Company or (z) has the title of Vice President of the Company and reports directly to the President of the Company, (ii) any person who, by virtue of his or her position with the Company, is advised by counsel to the Company that he or she is subject to Section 16 of the Securities Exchange Act, (iii) any Consultant whom the Special Participants Committee determines should receive an Incentive under the Plan and (iv) any other part-time or full-time employee of any member of the Group whom the Special Participants Committee designates, in a notice delivered by the Special Participants Committee to the Secretary of the Company, as a

"Selected Participant" for purposes of the Plan. A person who becomes a Selected Participant solely by virtue of clause (i) above shall cease to be a Selected Participant in the event that he or she does not have the title of Vice President, President or Chairman of the Board of the Company and is advised by counsel to the Company that he or she is not an executive officer of the Company. A person who becomes a Selected Participant solely by virtue of clause (iv) above shall cease to be a Selected Participant when and if the Special Participants Committee delivers a notice to the Secretary of the Company stating that such Participant is no longer to be treated as a Selected Participant.

"Selected Participants Committee" means either the Compensation Committee or the Benefit Administration Committee, depending upon the context in which the term is used. All actions which this Plan contemplates be taken by the Selected Participants Committee with respect to Named Executive Officers shall be taken by the Benefit Administration Committee if there are at least two Disinterested Persons on the Benefit Administration Committee at that time; in such instances, references to the Selected Participants Committee herein shall constitute references to the Benefit Administration Committee. All actions which this Plan contemplates be taken by the Selected Participants Committee other than with respect to Named Executive Officers, and all actions which this Plan contemplates be taken by the Selected Participants Committee when there are not at least two Disinterested Persons on the Benefit Administration Committee, shall be taken by the Compensation Committee; in such instances, references to the Selected Participants Committee herein shall constitute references to the Compensation Committee. All questions of interpretation as to whether the term "Selected Participants Committee" refers to the Compensation Committee or the Benefit Administration Committee shall be resolved by the Compensation Committee, whose determination shall be final and conclusive.

"Share" means a share of Common Stock.

"Stock Award" means an award of Shares by the Company to a Participant on an unrestricted basis as additional compensation and without payment to the Company.

"Stock Option" means a stock option granted pursuant to the Plan. Any Stock Option which is not designated as an Incentive Stock Option at the time of grant or which ceases to qualify as an "incentive stock option" under the Code shall be deemed to be a Non-Statutory Stock Option for purposes of the Plan.

"Tax Date" has the meaning stated in Section 13.09(a).

"Unit of Phantom Stock" means a right to receive, without payment to the Company, cash, dividends or a combination thereof.

Section 2. Purpose.

The purpose of the Plan is to advance the interests of the Group by furnishing Incentives designed to attract, retain and motivate employees and, in circumstances identified by the Special Participants Committee, Consultants to

the Group. Incentives may consist of opportunities to acquire Shares or cash or both, as provided by the Plan.

Section 3. Administration.

3.01. Administrative Body. The General Participants Committee shall have authority to administer the Plan to the express extent provided for in the Plan. Except to the extent that the Plan expressly provides for the General Participants Committee to administer the Plan, the Plan shall be administered by the Special Participants Committee. Any interpretive question regarding whether authority to administer any aspect of the Plan is vested in the Selected Participants Committee or the General Participants Committee shall be resolved by the Special Participants Committee, whose determination shall be final and conclusive. From time to time, the Board shall designate one or more Directors who need not be Disinterested Directors to serve on the General Participants Committee.

3.02. Award Authority. The Selected Participants Committee shall serve as the Award Authority with respect to the Selected Participants. The General Participants Committee shall serve as the Award Authority with respect to all part-time and full-time employees of each member of the Group other than any such employees who are Selected Participants. Subject to applicable law and the terms of the Plan, the Award Authority shall have plenary authority to (a) award Incentives under the Plan, (b) set the terms, conditions and restrictions of the Incentives, their exercise and all related rights and (c) accelerate the date on which a previously granted Incentive may be exercised. Terms, conditions and restrictions of Incentives may vary from Participant to Participant and from award to award. Acceleration may be to any date, including the date on which an Incentive is granted.

3.03. Authority of the Selected Participants Committee. Subject to applicable law and the terms of the Plan, the Selected Participants Committee shall have plenary authority, with respect to Incentives granted to all Participants, to (a) prescribe the form of agreements awarding and governing the Incentives, (b) interpret the Plan, (c) establish any rules or regulations relating to the Plan and (d) make all other determinations for the proper administration of the Plan. The Selected Participants Committee's decisions on matters relating to the Plan shall be final and conclusive on the Group, all part-time and full-time employees of, and all Consultants to, all members of the Group, all Participants and their respective successors, assigns, transferees, heirs and representatives.

3.04 Limitations on the Authority of the General Participants Committee. From time to time, the Selected Participants Committee shall deliver to the General Participants Committee a memorandum setting forth the maximum number of Shares for which the General Participants Committee may award Incentives during a specified period of time and setting forth the guidelines under which the General Participants Committee may grant such Incentives during such period. Such memorandum may be amended by the Selected Participants Committee at any time. Without the prior approval of the Selected Participants Committee, the General Participants Committee shall not award Incentives in any

such period in excess of the applicable maximum Share limit established by the Selected Participants Committee and shall not grant Incentives that do not satisfy the applicable guidelines established by the Selected Participants Committee.

Section 4. Eligibility.

4.01. **Designation.** All part-time and full-time employees of any member of the Group, including officers and directors who are part-time or full-time employees of any member of the Group, are eligible to receive Incentives under the Plan. All Consultants of any member of the Group are eligible to receive Incentives (other than Incentive Stock Options) under the Plan. Directors and officers who are not employees of any member of the Group and who are not Consultants to any member of the Group may not receive Incentives under the Plan.

4.02. **Participants.** The Award Authority may consider any factors in selecting Participants and in determining the types and amounts of their Incentives, including, but not limited to, (a) the current or anticipated financial condition of the Group, (b) the contributions by the Participant to the Group and (c) the other compensation provided to the Participant. The Award Authority's award of an Incentive to a person in any year shall not require the Award Authority to award any Incentive to that person in any other year.

Section 5. Types of Incentives. Incentives may be granted in any one or any combination of the following forms: (a) Non-Statutory Stock Options (Section 7); (b) Incentive Stock Options (Section 7); (c) SARS (Section 8); (d) Units of Phantom Stock (Section 9); (e) Stock Awards (Section 10); (f) Restricted Stock Awards (Section 10); (g) Performance Stock Rights (Section 11); and (h) Cash Awards (Section 12).

Section 6. Shares Subject to the Plan.

6.01. **Number of Shares.** Subject to Section 13.08 hereof, the aggregate number of Shares which may be issued under the Plan shall not exceed the sum of 2,000,000 Shares plus the "Unused Shares". For purposes of the plan, the term "Unused Shares" shall mean the lesser of (i) 400,000 Shares and (ii) the number of Shares that would be available for the award of benefits under the Company's 1988 Incentive Compensation Plan (the "1988 Plan") on December 5, 1998 but for the fact that the 1988 Plan expires (with respect to the grant of new incentive awards) on such date, without giving effect to lapses, cancellations or forfeitures that occur subsequent to such date. For purposes of this Section 6.01, each Unit of Phantom Stock shall constitute a single Share. Subject to Section 13.08 hereof, the maximum number of Shares which may be issued under the Plan pursuant to Incentive Stock Options is 2,000,000 Shares.

6.02. **Expiration and cancellation.** If an Incentive granted under the Plan expires, is terminated, is forfeited or is otherwise canceled before the

related Shares are issued, that Incentive and the related Shares, SARs or Units of Phantom Stock shall not apply toward the limits provided in Section 6.01 and shall be available again for the grant of Incentives under the Plan.

6.03. Maintenance of stock. Shares of Common Stock issued under the Plan shall be authorized and unissued shares or shares of treasury stock. The Company shall always reserve a number of Shares at least equal to the number of Shares which remain issuable pursuant to the Plan.

Section 7. Stock Options. Each Stock Option granted under the Plan shall be subject to the following terms and conditions:

7.01. Price. The option price per share shall be determined by the Award Authority; provided, however, that the option price shall not be less than 75% of the Fair Market Value on the Award Date of the Common Stock subject to the option. Any option granted subsequent to February 27, 1997 at an exercise price that is expressly designated at the time of grant as an exercise price of less than 100% of the Fair Market Value on the Award Date of the Common Stock subject to the option shall not vest sooner than three years from the Award Date (and shall not have its vesting accelerated to a date that is less than three years from the Award Date) unless such vesting arises as a result of the optionee's satisfying performance criteria approved by the Committee.

7.02. Number. The number of Shares subject to Stock Options shall be determined by the Award Authority; provided, however, that the maximum number of Shares covered by Stock Options granted to any Participant in any calendar year shall not exceed 1,000,000 Shares (subject to adjustment pursuant to Section 13.08 hereof).

7.03. Duration and time for exercise. The Award Date of a Stock Option shall be the date specified by the Award Authority, provided that that date shall not be prior to the date on which the Stock Option is actually granted. With respect to an employee that is granted a Stock Option pursuant to the Plan, the Award Date (i.e., the date of grant) of such Stock Option shall not be prior to the date on which such employee commences employment with a member of the Group. With respect to a Consultant that is granted a Stock Option pursuant to the Plan, the Award Date (i.e., the date of grant) of such Stock Option shall not be prior to the date on which such Consultant commences providing consulting or advisory services to a member of the Group. The term of each Stock Option shall be determined by the Award Authority, but shall not exceed eight years from the date of grant. In the event that the term of a Stock Option is not specified in the applicable grant agreement, the term of such Stock Option shall be eight years from the Award Date. Each Stock Option shall become exercisable at such time or times and in such amount or amounts during its term as shall be determined by the Award Authority at the time of grant; provided, however, that the Special Participants Committee may accelerate the exercisability of a Stock Option granted to any Participant at any time. In the event that the vesting schedule of a Stock Option is not specified in the applicable grant agreement, such Stock Option shall vest in four equal annual 25% installments commencing one year after the date of grant and continuing thereafter on each of the next

three annual anniversaries of the date of grant. Unless otherwise specified by the Award Authority, once a Stock Option becomes exercisable, whether in full or in part, it shall remain so exercisable until its expiration, forfeiture, termination or cancellation.

7.04. Exercise. A Stock Option may be exercised, in whole or in part, by giving written notice to the Company (Attention: Chief Financial Officer) at its principal office or to such transfer agent as the Company may designate. The notice shall identify the Incentive being exercised and shall contain such other information and terms as the Company may require. The notice shall be accompanied by full payment of the purchase price for the Shares (a) in United States dollars in cash or by check, (b) at the discretion of the Award Authority, by delivery of previously acquired Shares having a Fair Market Value on the date of exercise equal to the exercise price of the Stock Option, or (c) at the discretion of the Award Authority, by a combination of (a) and (b) above. As soon as practicable after receipt of the written notice, the Company shall deliver to the person exercising the Stock Option one or more stock certificates representing the Shares.

7.05. Incentive Stock Options. Notwithstanding anything in the Plan to the contrary, the following additional provisions shall apply to the grant of Incentive Stock Options:

(a) the aggregate Fair Market Value on the Award Date of the Shares with respect to which Incentive Stock Options are exercisable for the first time by any Participant during any calendar year (under all plans of the Group) shall not exceed \$100,000;

(b) all Incentive Stock Options must be granted on or before February 26, 2007;

(c) unless exercised sooner, each Incentive Stock Option shall expire no later than 8 years after the Award Date for that Incentive Stock Option;

(d) the option price for each Incentive Stock Option shall be not less than 100% of the Fair Market Value of the Shares subject to the option on the Award Date of that Incentive Stock Option;

(e) only part-time or full-time employees of any member of the Group are eligible to receive an Incentive Stock Option;

(f) no Incentive Stock Option shall be granted to any person who, at the time that option is granted, owns (within the meaning of Section 422 of the Code) stock having more than 10% of the total combined voting power of all classes of stock of the Company or any member of the Group, unless the option price is equal to at least 110% of the Fair Market Value of the Shares subject to the option on the Award Date and the option is not exercisable later than five years from the Award Date;

(g) Incentive Stock Options may be issued alone or with other Incentives (including Non-Statutory Stock Options) but may not be issued In

Tandem with Non-Statutory Stock Options; and

(h) each Incentive Stock Option agreement referred to in Section 13.06 shall contain or be deemed to contain all provisions required in order to qualify those Stock Options as incentive stock options under Section 422 of the Code, and the provisions of the Plan shall be interpreted and construed to effect such treatment under that Section of the Code.

Section 8. Stock Appreciation Rights. An SAR may be granted by the Award Authority (i) together with any Stock Option granted under the Plan, in which case it shall be exercisable with and in addition to that Stock Option, (ii) In Tandem with any Stock Option granted under the Plan (except with respect to an Incentive Stock Option if the grant of the SAR would cause the Incentive Stock Option not to qualify as such under Section 422 of the Code) or (iii) alone, without reference to any Stock Option. Each SAR granted under the Plan shall be subject to the following terms and conditions:

8.01. Number. Subject to Section 13.15 hereof, each SAR shall relate to such number of Shares as shall be determined by the Award Authority.

8.02. Duration and Time for Exercise. The Award Date of an SAR shall be the date specified by the Award Authority, provided that that date shall not be before the date on which the SAR is actually granted. With respect to an employee that is granted an SAR pursuant to the Plan, the Award Date (i.e., the date of grant) of such SAR shall not be prior to the date on which such employee commences employment with a member of the Group. With respect to a Consultant that is granted an SAR pursuant to the Plan, the Award Date (i.e., the date of grant) of such SAR shall not be prior to the date on which such Consultant commences providing consulting or advisory services to a member of the Group. The term of each SAR shall be determined by the Award Authority, but shall not exceed eight years from the date of grant. In the event that the term of an SAR is not specified in the applicable grant agreement, the term of such SAR shall be eight years from the Award Date. Each SAR shall become exercisable at such time or times and in such amount or amounts during its term as shall be determined by the Award Authority at the time of grant; provided, however, that the Selected Participants Committee may accelerate the exercisability of an SAR granted to any Participant at any time. Unless otherwise specified by the Award Authority, once an SAR becomes exercisable, whether in full or in part, it shall remain so exercisable until its expiration, forfeiture, termination or cancellation.

8.03. Exercise. An SAR may be exercised, in whole or in part, by giving written notice to the Company (Attention: Chief Financial Officer) at its principal office or to such transfer agent as the Company shall designate. The notice shall identify the Incentive being exercised and shall contain such other information and terms as the Special Participants Committee may require. As soon as practicable after receipt of the written notice, the Company shall deliver to the person exercising the SAR stock certificates for the Shares, cash or a combination thereof to which that person is entitled under Section 8.04 hereof.

8.04. Payment. When the Award Authority awards an SAR, it shall specify whether the SAR is exercisable (a) in United States dollars in cash or by check, (b) for Shares only, (c) for any combination thereof as specified by the person exercising the SAR at the time of the exercise of the SAR or (d) for any combination thereof as specified by the Award Authority at the time of the exercise of the SAR. The following provisions apply with respect to the exercise of an SAR under the Plan:

(a) If an SAR is exercisable for Shares, the number of Shares issuable upon the exercise of the SAR shall be determined by dividing:

(i) the number of Shares for which the SAR is exercised multiplied by the amount of the appreciation per Share (for this purpose, the "appreciation per Share" shall be the amount by which the Fair Market Value of a Share on the Exercise Date exceeds (A) in the case of an SAR granted In Tandem with a Stock Option, the exercise price or (B) in the case of an SAR granted alone without reference to a Stock Option, the Fair Market Value of a Share on the Award Date of the SAR); by

(ii) the Fair Market Value of a Share on the Exercise Date.

(b) If an SAR is exercisable for cash, the amount of cash payable upon exercise shall be equal to the Fair Market Value of a Share on the Exercise Date multiplied by the number of Shares that would be issuable if the SAR were exercised for Shares.

(c) No fractional Shares shall be issued upon the exercise of an SAR. Instead, the holder of the SAR shall receive a cash payment equal to the Fair Market Value of the fractional share. Notwithstanding the foregoing, the Selected Participants Committee may decide to pay cash to Participants covered by Section 16 of the Securities Exchange Act only if the Company, the Special Participants Committee and the Participant comply with all applicable provisions of such Section 16 and the related regulations.

Section 9. Phantom Stock. Each Unit of Phantom Stock granted under the Plan shall be subject to the following terms and conditions:

9.01. Number. Each Unit of Phantom Stock shall relate to one Share.

9.02. Duration and Time for Exercise. The Award Date of a Unit of Phantom Stock shall be the date specified by the Award Authority, provided that that date shall not be before the date on which the Unit of Phantom Stock is actually granted. With respect to an employee that is granted a Unit of Phantom Stock pursuant to the Plan, the Award Date (i.e., the date of grant) of such Unit of Phantom Stock shall not be prior to the date on which such employee commences employment with a member of the Group. With respect to a Consultant that is granted a Unit of Phantom Stock pursuant to the Plan, the Award Date (i.e., the date of grant) of such Unit of Phantom Stock shall not be prior to the date on which such Consultant commences providing consulting or advisory services to a member of the Group. The term of each Unit of Phantom Stock shall

be determined by the Award Authority, but shall not exceed eight years from the date of grant. In the event that the term of a Unit of Phantom Stock is not specified in the applicable grant agreement, the term of such Unit of Phantom Stock shall be eight years from the Award Date. Each Unit of Phantom Stock shall become exercisable at such time or times and in such amount or amounts during its term as shall be determined by the Award Authority at the time of grant; provided, however, that the Selected Participants Committee may accelerate the exercisability of a Unit of Phantom Stock at any time. Unless otherwise specified by the Award Authority, once a Unit of Phantom Stock becomes exercisable, whether in full or in part, it shall remain so exercisable until its expiration, forfeiture, termination or cancellation.

9.03. Exercise. A Unit of Phantom Stock may be exercised, in whole or in part, by giving written notice to the Company (Attention: Chief Financial Officer) at its principal office or to such transfer agent as the Company shall designate. The notice shall identify the Incentive being exercised and shall contain such other information and terms as the Board shall require. As soon as practicable after receipt of the written notice, the Company shall deliver to the person exercising the Unit of Phantom Stock the amount of cash to which that person is entitled under Section 9.04.

9.04. Payment.

(a) When the Award Authority awards a Unit of Phantom Stock, the Award Authority shall specify whether that unit is entitled to the dividends that would accrue to a single Share. If any Unit of Phantom Stock is so entitled, dividends shall be paid on the unit as if the unit were a Share.

(b) The amount of cash payable upon exercise of a Unit of Phantom Stock shall be the excess of Fair Market Value of one Share on the Exercise Date over the Fair Market Value of one Share on the Award Date.

Section 10. Stock Awards and Restricted Stock Awards. Stock Awards and Restricted Stock Awards shall be subject to the following terms and conditions:

10.01. Number of Shares. The number of Shares to be issued by the Company to a Participant under a Stock Award or a Restricted Stock Award shall be determined by the Award Authority; provided, however, that no more than 500,000 Shares may be issued under all Stock Awards and Restricted Stock Awards (independent of the number of Shares covered by Performance Stock Rights) granted pursuant to the Plan.

10.02. Sale Price. The Approval Authority shall determine the prices, if any, at which Shares issued under a Restricted Stock Award shall be sold to a Participant, which prices may vary from time to time and among Participants and which may be below the Fair Market Value of Shares at the date of sale. The Shares of Restricted Stock awarded at a price must be paid for (a) in United States Dollars in cash or by check, (b) at the discretion of the Award Authority, by delivery of Shares having a Fair Market Value equal on the purchase date to the purchase price or (c) at the discretion of the Award

Authority, by a combination of (a) and (b) above.

10.03. Duration. Shares of restricted stock that are to be sold to the Participant must be fully paid for by the Participant within the time specified by the Award Authority. If payment is not timely made, the Incentive shall lapse and terminate.

10.04. Delivery. As soon as practicable after granting a Stock Award, the Company shall deliver to the Participant one or more stock certificates for the Shares awarded. As soon as practicable after granting a Restricted Stock Award and, if the restricted stock is to be sold to the Participant, after payment of the full purchase price, the Company shall deliver one or more stock certificates for the Shares as provided in Section 10.07.

10.05. Restrictions. All Shares issued under a Restricted Stock Award shall be subject to such restrictions as the Award Authority may determine, including, but not limited to, any or all of the following:

(a) a prohibition against the sale, transfer, pledge, encumbrance or other disposition of the Shares. Such a prohibition shall lapse at the time or times that the Award Authority may determine (whether in annual or more frequent installments, at the time of the death, disability or retirement of the Participant, or otherwise); and

(b) a requirement that the Participant forfeit (or in the case of Shares sold to a Participant, resell to the Company at the same price at which the Participant purchased the Shares) all or any part of those Shares if the Participant's employment is terminated during any period in which those Shares are subject to restrictions.

10.06 Limitation. Notwithstanding the foregoing, all Shares issuable pursuant to a Restricted Stock Award shall be subject to at least one of the following conditions:

(a) the Participant shall be required to forfeit the Shares if the Participant ceases to be employed by a member of the Group within three years after the date of grant; or

(b) the Participant shall be required to forfeit the Shares if the Participant fails to satisfy performance criteria approved by the Committee.

10.07. Escrow. Shares of Common Stock issued under a Restricted Stock Award shall be registered in the name of the Participant and deposited, together with a stock power endorsed in blank, in escrow with the Company. Each stock certificate for those Shares shall bear a legend in substantially the following form:

"The transfer of this certificate and the shares of Common Stock represented by it is subject to the terms and conditions (including conditions of forfeiture) contained in the 1997 Incentive Benefit Plan of Dialogic Corporation (the "Company") and an agreement entered into

between the registered owner and the Company. Copies of the Plan and agreement are on file in the office of the Secretary of the Company."

10.08. End of restrictions. After the restrictions have expired, stock certificates evidencing the Shares shall be delivered to the Participant free of such legend. The Shares, however, shall remain subject to all other restrictions stated in the Plan or in the agreement providing for that Incentive.

10.09. Stockholder. Subject to the terms and conditions of the Plan and any other restrictions determined by the Award Authority and set forth in the agreement for the Restricted Stock Award, each Participant who receives Shares under a Restricted Stock Award shall have all of the rights of a stockholder during any period in which the Shares are subject to restrictions, including, but not limited to, the right to vote the Shares. Dividends on restricted Shares paid in cash or property shall be held in escrow together with the restricted Shares and shall not be released to the Participant unless and until the restrictions lapse or the conditions to release are satisfied. Dividends payable in Shares or other stock, however, shall be paid in restricted Shares subject to all provisions of this Section 10.

Section 11. Performance Stock Rights. The award of Performance Stock Rights shall be subject to such terms and conditions as the Award Authority considers appropriate. Each award of a Performance Stock Right shall include the performance objectives to be achieved by the Group or the Participant or both the Group and the Participant. The number of Shares to be issued by the Company to a Participant under a Performance Stock Right shall be determined by the Award Authority; provided, however, that no more than 500,000 Shares may be issued under all Performance Stock Rights (independent of the number of Shares covered by Stock Awards and Restricted Stock Awards) granted pursuant to the Plan. If the performance objectives are achieved, the Participant shall be issued a number of Shares equal to the number of Performance Stock Rights granted to that Participant. In the event that the performance objectives for a particular Performance Share Unit relate solely to continued employment, three years from the date of grant of such Unit shall be the minimum period of continued employment required in order to satisfy such performance objectives.

Section 12. Cash Awards. The amount of any Cash Award shall be determined by the Award Authority. Cash Awards shall be subject to such other terms and conditions as the Award Authority may determine.

Section 13. General.

13.01. Effective Date; Effectiveness. The Plan was adopted by the Board on February 27, 1997. Any Incentive granted pursuant to the Plan prior to the date on which the shareholders of the Company approve the Plan shall be granted subject to the condition that the shareholders of the Company approve the Plan on or before February 26, 1998. This Plan shall be void and of no effect if such shareholder approval is not given on or before February 26, 1998.

13.02. Duration. Unless the Plan is terminated earlier, the Plan shall terminate on February 26, 2007. No Incentive or other rights under the Plan shall be granted thereafter. The Board, without further approval of the Company's stockholders, may at any time before that date terminate or suspend the Plan. After termination of the Plan, no further Incentives may be granted under the Plan. Incentives granted before any termination or suspension of the Plan shall continue to be exercisable in accordance with the terms of such Incentives.

13.03. Limited Transferability of Incentives. Except as provided in the balance of this Section 13.03, no Option granted under this Plan shall be transferable otherwise than by will or the law of descent and distribution following the Optionee's death, and during the lifetime of the Optionee, shall be exercisable only by him or for his benefit by his attorney in fact or guardian. An Incentive other than an Incentive Stock Option may, in connection with a Participant's estate plan and with the approval of the Award Authority, be assigned in whole or in part during the Participant's lifetime to one or more members of the Participant's immediate family or to a trust established exclusively for one or more such family members. The assigned portion may only be exercised by the person or persons who acquire a proprietary interest in the Incentive pursuant to the assignment. The terms applicable to the assigned portion shall be the same as those in effect for the Incentive immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Award Authority may deem appropriate.

13.04. Effects of Termination of Employment or Death. Each agreement providing for an Incentive shall include such provisions as the Award Authority may determine for the exercise and termination of the Incentive, the rights thereunder and the forfeiture thereof, in each case if the Participant ceases to be an employee of, or a Consultant to, the Company or any member of the Group for any reason; provided, however, that notwithstanding any provision to the contrary herein or in any Incentive Agreement, the provisions of Section 13.05 shall govern in the event that the employment of an employee-holder of a Stock Option or SAR terminates as a result of death, Disability or Retirement or in the event that the employment of an employee-holder of a Stock Option or SAR is terminated by the Company either with "cause" or without "cause" (any determination of "cause" to be made by the Special Participants Committee and to be binding and conclusive for purposes of the Plan) or is terminated voluntarily by such employee-holder. Subject to Section 13.05(e) hereof, an employee's employment shall be deemed to have terminated when the Company gives the employee notice of termination or receives a notice of termination from the employee, irrespective of the subsequent payment of salary, wages or severance or other benefits. The Special Participants Committee's determination as to whether a leave of absence (whether or not with approval of the Company or by reason of military or governmental service) constitutes termination of employment for purposes of the Plan shall be binding and conclusive.

13.05 Termination of Employment as a Result of Death, Disability or Retirement; Other Terminations of Employment. Notwithstanding any provision to the contrary herein or in any Incentive Agreement, the following provisions

shall apply with respect to Stock Options and SARs held by an employee-Participant at the termination of such Participant's employment with members of the Group in the event that such Participant's employment terminates as a result of death, Disability or Retirement or in the event that such Participant's employment is terminated by the Company either with "cause" or without "cause" (any determination of "cause" to be made by the Special Participants Committee and to be binding and conclusive for purposes of the Plan):

- (a) If such employment terminates as a result of death, the Participant's Stock Options and SARs shall be deemed fully exercisable as of the date of death and such Participant's estate shall have the right to exercise the Participant's Stock Options and SARs for a period ending on the earlier of the expiration dates of such Stock Options and SARs or three years from the date of termination of employment.
- (b) If such employment terminates as a result of Disability, the Participant's Stock Options and SARs shall be deemed fully exercisable as of the date that the Participant is notified that he will no longer be employed by any members of the Group (the "Notification Date") and such Participant shall have the right to exercise his Stock Options and SARs for a period ending on the earlier of the expiration dates of such Stock Options and SARs or three years from the Notification Date, provided that if an Incentive Stock Option is exercised beyond the last date consistent with treatment of such option as an "incentive stock option" under the Code, such option shall be deemed to be a Non-Statutory Stock Option hereunder.
- (c) If such employment terminates as a result of Retirement, the Participant shall have the right to exercise his Stock Options and SARs for a period ending on the earlier of the expiration dates of such Stock Options and SARs or three years from the date of termination of employment, provided that unless the Special Participants Committee determines otherwise (i.e., determines that some or all of a retiring Participant's unvested Stock Options be deemed fully vested) with respect to a particular Retirement, such Stock Options and SARs shall be exercisable by the Participant after Retirement only to the extent exercisable on the date of termination of employment and provided that if an Incentive Stock Option is exercised beyond the last date consistent with treatment of such option as an "incentive stock option" under the Code, such option shall be deemed to be a Non-Statutory Stock Option hereunder.
- (d) If such employment is terminated by the Company without "cause", the Participant shall have the right to exercise his Stock Options and SARs for a period ending on the earlier of the expiration dates of such Stock Options and SARs or three months from the date of termination of employment, provided that such

Stock Options and SARs shall be exercisable by the Participant after termination of employment only to the extent exercisable on the date of termination of employment.

(e) If such employment is terminated by the Company with "cause", all Stock Options and SARs held by such Participant shall terminate as of the date on which such employment terminates.

(f) In the event that an employee continues to serve as a director or Consultant of any member of the Group after such employee ceases to be employed by any member of the Group, the employee shall, for purposes of the Plan, be deemed to continue in the employment of the Company until such time that such person ceases to serve as a director of, Consultant to or employee of any member of the Group; provided that if an Incentive Stock Option is exercised beyond the last date consistent with treatment of such option as an "incentive stock option" under the Code, such option shall be deemed to be a Non-Statutory Stock Option hereunder.

Unless otherwise provided by the Award Authority in the applicable Incentive Agreement or at the time of termination of employment, if a Participant voluntarily terminates his or her employment with all members of the Group, the Participant shall have the right to exercise his Stock Options and SARs for a period ending on the earlier of the expiration dates of such Stock Options and SARs or three months from the date of termination of employment, provided that such Stock Options and SARs shall be exercisable by the Participant after termination of employment only to the extent exercisable on the date of termination of employment. The Award Authority may provide at any time before or within one week after such voluntary termination of employment that a Participant's right to exercise Stock Options or SARs in such instance shall terminate as of the date of termination of employment.

13.06. Incentive Agreements. Except in the case of Cash Awards, the terms of each Incentive shall be stated in an agreement between the Company and the Participant in a form approved by the Special Participants Committee. The Participant must execute and deliver the agreement to the Company as a condition to the effectiveness of the Incentive. The Award Authority may also determine to enter into agreements with holders of options (a) to reclassify or convert certain outstanding options, within the terms of the Plan, as Incentive Stock Options or as Non-Statutory Stock Options or (b) to eliminate SARs for all or part of such options and any other previously issued options. All such agreements may contain such terms and conditions as the Award Authority considers advisable that are not inconsistent with the Plan, including, but not limited to, transfer restrictions, rights of first refusal, forfeiture provisions, representations and warranties of the Participant and provisions to ensure compliance with all applicable laws, regulations and rules as provided in Section 13.07 hereof.

13.07. Compliance with Law. The Company may determine, in its sole discretion, that it is necessary or desirable to list, register or qualify (or

to update any listing, registration or qualification of) any Incentive or the Shares issuable or issued under any Incentive or the Plan on any securities exchange or under any federal or state securities law, or to obtain consent or approval of any governmental body as a condition of, or in connection with, the award of any Incentive, the issuance of Shares under any Incentive or the Plan, or the removal of any restrictions imposed on such Shares. If the Company makes such a determination, the Incentive shall not be awarded or the Shares shall not be issued or the restrictions shall not be removed, as applicable, in whole or in part, unless and until the listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company. The Company's obligation to sell or issue Shares under an Incentive is subject to compliance with all applicable laws and regulations. The Special Participants Committee, in its sole discretion, shall determine whether the sale and issue of Shares is in compliance with all applicable laws and regulations.

13.08. Adjustment. If the outstanding Shares of Common Stock are increased or decreased or changed into or exchanged for a different number or kind of securities of the Company or of another corporation, by reason of a reorganization, merger, consolidation, recapitalization, reclassification, stock split, combination of securities or dividend payable in corporate securities, then an appropriate adjustment shall be made by the Board in the number, kind and/or price of Shares for which Incentives may be granted under the Plan. In addition, the Special Participants Committee shall make appropriate adjustment in the number, kind and/or price of Shares as to which outstanding Incentives, or portions thereof then unexercised, shall be exercisable. In the event of any such adjustment, the exercise price of any Stock Option, the performance objectives, restrictions or other terms and conditions of any Incentive and the Shares issuable under any Incentive shall be adjusted as and to the extent appropriate, in the sole and absolute discretion of the Special Participants Committee, to provide each Participant with substantially the same relative rights before and after such adjustment to the extent practical.

13.09. Withholding.

(a) The Company shall have the right to withhold from any payments made under the Plan or to collect as a condition to any award, payment or issuance of Shares under the Plan any taxes required to be withheld by Federal, state or local law. Subject to Section 13.09(b) hereof, whenever a Participant is required to pay to the Company an amount required to be withheld under applicable tax laws in connection with a distribution of Shares or cash or upon exercise of a Stock Option or SAR, the Participant may satisfy this obligation in whole or in part by electing (the "Election") to have the Company withhold from the distribution that number of Shares having a value equal to the amount required to be withheld. The value of the Shares to be withheld shall be based on the Fair Market Value of the Shares on the date on which the amount of tax to be withheld is determined ("Tax Date"). Each Election must be made before the Tax Date.

(b) The Special Participants Committee may disapprove any Election, may suspend or terminate the right to make Elections, or may provide with

respect to any Incentive that the right to make an Election shall not apply to that Incentive. An Election is irrevocable.

(c) If a Participant is subject to the restrictions of Section 16 of the Securities Exchange Act, then an Election is subject to the following additional restrictions:

(i) No Election shall be effective for a Tax Date that occurs within six months of the Award Date of the Incentive; and

(ii) The Election must be made six months before the Tax Date.

13.10. No right to a Continued Relationship. No employee-Participant under the Plan shall have any right to continue in the employ of the Company or any member of the Group for any period of time because of such employee's participation in the Plan. No Consultant-Participant under the Plan shall have any right to continue as a consultant or advisor to the Company or any member of the Group for any period of time because of such Consultant's participation in the Plan.

13.11. No Right as Stockholder. No Participant or Qualified Person shall have the rights of a stockholder with respect to the Shares covered by an Incentive unless a stock certificate is issued to that person for the Shares. No adjustment shall be made for cash dividends or similar rights for which the record date is before the date on which such stock certificate is issued.

13.12. Amendment of the Plan. The Board may amend the Plan from time to time in such respects as the Board deems advisable. No such amendment, however, shall change or impair an Incentive without the consent of the Participant or Qualified Person holding that Incentive.

13.13. Definition of Fair Market Value. Whenever the "Fair Market Value" of the Common Stock is to be determined as of a particular date (the "Valuation Date") for purposes of the Plan, "Fair Market Value" shall be determined as follows:

(a) If the Common Stock is quoted on the Nasdaq Stock Market on the Valuation Date, "Fair Market Value" shall equal the average of (i) the highest sales price of the Common Stock as reported on the Nasdaq Stock Market on the Valuation Date and (ii) the lowest sales price of the Common Stock as reported on the Nasdaq Stock Market on the Valuation Date.

(b) If the Common Stock is then traded on a national securities exchange, "Fair Market Value" shall equal the average of (i) the highest sales price of the Common Stock as reported on such exchange on the Valuation Date and (ii) the lowest sales price of the Common Stock as reported on such exchange on the Valuation Date.

(c) If the Common Stock is not publicly traded at the time that "Fair Market Value" is to be determined under the Plan, "Fair Market Value" shall be

determined in good faith by the Special Participants Committee.

13.14. Repurchase, Replacement and Substitution of Options. Upon approval of the Board, the Company may repurchase a previously granted Stock Option from a Participant by mutual agreement before that Stock Option has been exercised upon such terms and conditions as the Company and the Participant shall agree, provided that the purchase price per Share shall not exceed the amount by which the Fair Market Value of the Common Stock subject to the option on the date of purchase exceeds the exercise price. The Award Authority may agree to the cancellation of Stock Options in order to make a Participant eligible for the grant of a replacement Stock Option at a lower price than the option to be canceled. In the event of a merger or consolidation in which the Company is the effective survivor, or the acquisition by the Company of property or stock of an acquired corporation or any reorganization or other transaction qualifying under Section 424 of the Code, the Company may substitute Stock Options under the Plan for options under a plan of the acquired corporation, provided that (a) the excess of the aggregate Fair Market Value of the Shares subject to the option immediately after the substitution over the aggregate option price of such Shares is not more than the similar excess immediately before such substitution, and (b) the new option does not give the Participant or Qualified Person holding that Stock Option additional benefits. In the event that (x) the Company should adopt a plan of reorganization pursuant to which (i) it shall merge into, consolidate with, or sell substantially all of its assets to, any other corporation or entity or (ii) any other corporation or entity shall merge into the Company in a transaction in which the Company shall not be the effective survivor, then the Company shall have the right to provide for all Incentives granted hereunder to be assumed by the acquiring or surviving corporation on such terms as the Selected Participants Committee shall determine to be appropriate.

13.15. Fractional and Minimum Shares; Maximum Shares. In no event shall a fraction of a Share be purchased or issued under the Plan without approval of the Special Participants Committee. The Special Participants Committee may specify a minimum number of Shares for which each Stock Option and/or SAR must be exercised, which number, however, shall not be more than 100.

13.16 Application of Funds. The proceeds received by the Company from the sale of Shares under the Plan shall be used for general corporate purposes.

13.17 Other Incentives and Plans. Nothing in the Plan shall prohibit any member of the Group from establishing other employee incentives and plans.

13.18 Governing Law. The validity and construction of the Plan and of each agreement evidencing Incentives shall be governed by the laws of the State of New Jersey, excluding the conflict-of-laws principles thereof.

14. Change in Control. In the event that a "Senior Level Optionee" (as defined herein) experiences a "Termination Event" (as defined herein) within twelve months after a "Change in Control Event" (as defined herein) occurs, all Stock Options granted hereunder which are held by such Senior Level Optionee on

the date that such Termination Event occurs (the "Termination Date") shall be deemed to be fully vested hereunder as of such Termination Date for purposes of determining the exerciseability of such Stock Options on and after such Termination Date and all restrictions on Restricted Shares shall be lifted. In addition, if a Change In Control Event results in the criteria for the elimination of restrictions on Restricted Shares being no longer measurable, such restrictions shall be deemed to be immediately lifted. However, if the Board of Directors determines that the acceleration of vesting of Restricted Shares for any individual recipient of Restricted Shares would prevent the Company from engaging in a proposed pooling transaction resulting in Change of Control, such acceleration of vesting shall not take place. For purposes of the Plan, the term "Change in Control Event" shall mean any of the following events:

(a) the acquisition by any one person, or more than one person acting as a group, of ownership of stock of the Company, other than any person or group of persons who held such total voting power on April 10, 1994 (the day before the Company commenced its initial public offering), possessing 50.1% or more of the total voting power of the capital stock of the Company;

(b) the approval by the stockholders of the Company of (i) any consolidation or merger of the Company, in which the holders of voting stock of the Company immediately before the consolidation or merger will not own 50% or more of the voting shares of the continuing or surviving corporation immediately after such consolidation or merger, or (ii) any sale, lease, exchange or other transfer (in one transaction or series of related transactions) of all or substantially all of the assets of the Company; or

(c) a change of 50% (rounded to the next whole percent) in the membership of the Board within a 12-month period, unless the election, or nomination for election by stockholders, of each new director within such period was approved by the vote of 80% (rounded to the next whole person) of the directors then still in office who were in office at the beginning of such 12-month period.

For purposes of this Section 14, a Senior Level Optionee shall be deemed to have experienced a "Termination Event" if, and only if, within twelve months after a "Change in Control Event" occurs, (i) such Senior Level Optionee's employment with the Company or any subsidiary thereof is terminated by the Company or such subsidiary without cause, (ii) such Senior Level Optionee's base salary (excluding bonuses and/or commissions) is reduced by more than 10% per annum or (iii) the duties and responsibilities of such Senior Level Optionee are substantially reduced without such Senior Level Optionee's consent.

For purposes of Section 14, the term "Senior Level Optionee" shall mean the Company's Chairman of the Board, the Company's Chief Executive Officer, the Company's Chief Financial Officer, each Executive Vice President of the Company, the Company's General Counsel and each Vice President of the Company who, on the date on which a Change in Control Event occurs, reports directly to the Company's Chief Executive Officer pursuant to the Company's then existing table of organization. Such definition shall also include each of the following individuals:

John Alfieri
Geno Alissi
Russ Dauer
Larry Fromm
Stephane Goubau
Robert Heymann

John Landau
Steve Leyland
Gary Marks
John Taylor
Dean Trumbull
Steve Krupinski

EXHIBIT 10.14

COMMON STOCK AND WARRANT PURCHASE AGREEMENT

This COMMON STOCK AND WARRANT PURCHASE AGREEMENT (this "Agreement") is made as of the 1st day of March, 1999 between Dialogic Corporation, a New Jersey corporation (the "Company"), and Microsoft Corporation, a Washington corporation (the "Purchaser").

RECITALS

WHEREAS, the Company desires to sell to the Purchaser, and the Purchaser desires to purchase from the Company, shares of the Company's Common Stock, no par value (the "Common Stock"), and a warrant to purchase Common Stock (the "Warrant") on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the foregoing recital, the mutual promises hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1

Agreement to Purchase and Sell Common Stock and Warrant

Upon the terms and subject to the conditions of this Agreement, the Company hereby agrees to sell to the Purchaser, and the Purchaser agrees to purchase from the Company, 860,681 shares of Common Stock (the "Shares") and the Warrant, which shall entitle the holder thereof to purchase 279,869 shares of Common Stock (the "Warrant Shares"), for an aggregate purchase price of \$24,228,170.15. The Warrant shall be exercisable at an exercise price of \$35.19 per Warrant Share, for an aggregate purchase price of \$9,848,590. The Warrant shall be in the form attached as Exhibit A.

SECTION 2

Delivery; Payment; Legend

2.1 Closing Date. The Closing of the purchase and sale of the Shares and Warrant hereunder (the "Closing") shall be held upon the exchange via facsimile of executed signature pages of all documents required by this Agreement, together with the deliveries contemplated by Section 2.2 (the date of the Closing being hereinafter referred to as the "Closing Date"). Each of the Company and the Purchaser covenant to deliver originals of each document promptly following the Closing Date.

2.2 Delivery and Payment. At the Closing, the Company will deliver to the Purchaser a duly executed Warrant and a certificate or certificates

representing the Shares against payment of the aggregate purchase price of \$24,228,170.15 by wire transfer of immediately available funds to an account designated by the Company.

2.3 Legend. The certificate or certificates representing the Shares shall be subject to a legend restricting transfer under the Securities Act of 1933, as amended (the "Securities Act") and referring to restrictions on transfer herein, such legend to be substantially as follows:

"The shares represented by this certificate have been issued without registration under the Securities Act of 1933, as amended, or under any state securities law. Such shares may not be sold or transferred in the absence of such registration or an opinion of counsel reasonably satisfactory to the Company as to the availability of an exemption from registration.

The shares represented by this certificate are subject to restrictions on transfer set forth in a Common Stock and Warrant Purchase Agreement dated as of March 1, 1999 between the Company and Microsoft Corporation, a copy of which agreement may be obtained at no cost by written request made by the holder of record of this certificate to the secretary of the Company at the Company's principal executive offices."

The Company agrees (i) to remove the legend set forth in the second preceding paragraph upon (a) receipt of a request from the Purchaser after registration of the Shares under the Securities Act in which the Purchaser represents that the Shares are being sold or otherwise transferred in a transaction of the character (including lending of securities) described in the plan of distribution of the registration statement applicable to such Shares, or (b) receipt of an opinion of counsel in form and substance reasonably satisfactory to the Company that the Shares are eligible for transfer without registration under the Securities Act and (ii) to remove the legend set forth in the immediately preceding paragraph at such time with respect to those Shares that may be transferred from time to time upon the termination of the covenants of Section 7 as provided for in Section 8.3.

SECTION 3

Representations and Warranties of the Company

The Company hereby represents and warrants to the Purchaser as follows:

3.1 Organization. The Company is a corporation duly organized and validly existing under the laws of the State of New Jersey and is in good standing under such laws. The Company has the requisite corporate power to own and operate its properties and assets, and to carry on its business as presently conducted and as contemplated by the Development and License Agreement referred to in Section 5.6. The Company is qualified to do business as a foreign corporation in each jurisdiction in which the ownership of its property or the nature of its business requires such qualification, except where the failure to

be so qualified would not have a materially adverse effect on the Company and its subsidiaries, taken as a whole.

3.2 Authorization. All corporate action on the part of the Company necessary for the authorization, execution, delivery and performance of this Agreement and the Warrant by the Company, and the authorization, sale, issuance and delivery of the Shares hereunder have been taken. This Agreement and the Warrant constitute legal, valid and binding obligations of the Company enforceable in accordance with their respective terms, subject to laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief or other equitable remedies. Upon their issuance and delivery pursuant to this Agreement, the Shares will be validly issued, fully paid and nonassessable. The issuance and sale of the Shares will not give rise to any preemptive rights or rights of first refusal on behalf of any person in existence on the date hereof.

3.3 No Conflict. The execution and delivery of this Agreement and the Warrant do not, and the consummation of the transactions contemplated hereby and thereby will not, conflict with, or result in any violation of, or default (with or without notice or lapse of time, or both), or give rise to a right of termination, cancellation or acceleration of any obligation or to a loss of a material benefit under, any provision of the Restated Certificate of Incorporation or Bylaws, as amended to date, of the Company or any mortgage, indenture, lease or other agreement or instrument, permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to the Company, its properties or assets, the effect of which would have a material adverse effect on the Company and its subsidiaries, taken as a whole, or materially impair or restrict the Company's power to perform its obligations as contemplated under said agreements.

3.4 SEC Documents. The Company has filed all required reports, schedules, forms, statements and other documents required to be filed by the Company with the Securities and Exchange Commission (the "SEC") since December 31, 1997 (the "SEC Documents"). As of their respective dates, the SEC Documents complied in all material respects with requirements of the Securities Act or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as the case may be and the rules and regulations of the SEC promulgated thereunder applicable to such SEC Documents, and none of the SEC Documents, except to the extent that information contained in any SEC Document has been revised or superseded by a later Filed SEC Document (as defined below), contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the Company's Form 10-K for the year ended December 31, 1997 and the Form 10-Q for the period ended September 30, 1998 comply as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") (except, in the case of unaudited statements as permitted by Form 10-Q of the SEC) applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto or as

described in writing to the Purchaser prior to the date hereof) and fairly present the consolidated financial position of the Company and its consolidated subsidiaries as of the dates thereof and the consolidated results of their operation and cashflows for the periods then ending in accordance with GAAP (subject, in the case of the unaudited statements, to normal year end audit adjustments). Except as set forth in the Filed SEC Documents and except for liabilities that have arisen in the ordinary course of business subsequent to September 30, 1998, neither the Company nor any of its subsidiaries has any material liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise) required by GAAP to be set forth on a consolidated balance sheet of the Company and its consolidated subsidiaries or in the notes thereto and which can reasonably be expected to have a material adverse effect on the Company and its subsidiaries taken as a whole.

3.5 Absence of Certain Changes or Events. Except as disclosed in the SEC Documents filed and publicly available (either on the EDGAR system or by delivery to the Purchaser) prior to the date of this Agreement (the "Filed SEC Documents"), since the date of the most recent audited financial statements included in the Filed SEC Documents, there has not been (i) any declaration, setting aside or payment of any dividend or distribution (whether in cash, stock or property) with respect to any of the Company's capital stock, (ii) any split, combination or reclassification of any of its capital stock or any issuance or the authorization of any issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock, (iii) any damage, destruction or loss of property, whether or not covered by insurance, that has or is likely to have a material adverse effect on the Company and its subsidiaries taken as a whole, or (iv) any change in accounting methods, principles or practices by the Company materially affecting its assets, liabilities, or business, except insofar as may have been required by a change in GAAP.

3.6 Governmental Consent, etc. In reliance on the representations of the Purchaser contained herein, no consent, approval or authorization of, or designation, declaration or filing with, any governmental authority on the part of the Company is required in connection with the valid execution and delivery of this Agreement, or the offer, sale or issuance of the Shares, or the consummation of any other transaction contemplated hereby, except such filings as may be required to be made with the SEC and the National Association of Securities Dealers, Inc. There is no order in effect enjoining or restricting the Company from executing, delivering or performing this Agreement or the Warrant.

3.7 Litigation. Except as is disclosed in the Filed SEC Documents, there is no suit, action or proceeding pending against the Company or any of its subsidiaries that, individually or in the aggregate, would reasonably be expected to (i) have a material adverse effect on the Company and its subsidiaries taken as a whole, (ii) impair the ability of the Company to perform its obligations under this Agreement and the Warrant, or (iii) prevent the consummation of any of the transactions contemplated by said agreements.

3.8 Capitalization.

(a) As of the date of this Agreement, the authorized capital stock of the Company consists of 60,000,000 shares of the Common Stock, no par value, and 10,000,000 shares of preferred stock, no par value, of the Company (the "Company Preferred Stock").

(b) As of December 31, 1998, there were (1) 15,895,041 shares of the Common Stock issued and outstanding, (2) 392,500 shares of the Common Stock held in the treasury of the Company, (3) no shares of the Company Preferred Stock issued and outstanding, (4) 3,179,428 shares of Common Stock reserved for issuance upon exercise of outstanding awards under the Company's stock incentive plans granted to current or former employees, directors or consultants of the Company and its subsidiaries, (5) 1,813,924 shares of Common Stock reserved for issuance under awards not then granted under the Company's stock incentive plans, and (6) 85,419 shares of Common Stock reserved for issuance under the Company's stock purchase plan. On February 22, 1999, the Company's board of directors approved, subject to stockholder approval, an increase in the number of shares covered by such stock purchase plan by 200,000 shares of Common Stock.

(c) All outstanding shares of the Common Stock are duly authorized, validly issued, fully paid and nonassessable, free from any liens created by the Company with respect to the issuance and delivery thereof and not subject to preemptive rights.

3.9 Registration Rights. No person has the right to register shares of Common Stock on the registration statement required to be filed by the Company pursuant to Section 7.2 of this Agreement.

SECTION 4

Representations and Warranties of the Purchaser

The Purchaser hereby represents and warrants to the Company as follows:

4.1 Organization. The Purchaser is a corporation duly organized and validly existing under the laws of the State of Washington, with all requisite corporate power and authority to own, lease and operate its assets and properties and to conduct its business as now being conducted.

4.2 Authority. All corporate action on the part of the Purchaser necessary for the authorization, execution, delivery and performance of this Agreement by the Purchaser has been taken. This Agreement has been duly executed and delivered by the Purchaser and constitutes the legal, valid and binding obligation of the Purchaser, enforceable in accordance with its terms, subject to laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief or other equitable remedies. The execution and delivery of the Agreement do not, and the consummation of the transactions contemplated hereby will not, conflict with or result in any violation of any obligation under any provision of the Articles of Incorporation (as restated and amended) or Bylaws of the Purchaser

or any judgment, order, decree, statute, law, ordinance, rule or regulation applicable to the Purchaser.

4.3 Investment. The Purchaser is acquiring the Shares and the Warrant for investment for its own account, not as a nominee or agent, and not with a view to, or for resale in connection with, any distribution thereof. The Purchaser understands that the Shares and the Warrant have not been registered under the Securities Act by reason of a specific exemption from the registration provisions of the Securities Act which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of the Purchaser's representations and warranties contained herein.

4.4 Disclosure of Information. The Purchaser has had full access to all information it considers necessary or appropriate to make an informed investment decision with respect to the Shares to be purchased by the Purchaser under this Agreement and the Warrant. The Purchaser further has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of the Shares and the Warrant and to obtain additional information necessary to verify any information furnished to the Purchaser or to which the Purchaser had access.

4.5 Investment Experience. The Purchaser understands that the purchase of the Shares and Warrant involves substantial risk. The Purchaser has experience as an investor in securities of companies and acknowledges that it is able to fend for itself, can bear the economic risk of its investment in the Shares and the Warrant and has such knowledge and experience in financial or business matters that it is capable of evaluating the merits and risks of this investment in the Shares and the Warrant and protecting its own interests in connection with this investment.

4.6 Accredited Investor Status. The Purchaser is an "accredited investor" within the meaning of Regulation D promulgated under the Securities Act.

4.7 Restricted Securities. The Purchaser understands that the Shares to be purchased by the Purchaser hereunder and the Warrant are characterized as "restricted securities" under the Securities Act inasmuch as they are being acquired from the Company in a transaction not involving a public offering and that under the Securities Act and applicable regulations thereunder such securities may be resold without registration under the Securities Act only in certain limited circumstances. The Purchaser is familiar with Rule 144 of the Securities Act, as presently in effect, and understands the resale limitations imposed thereby and by the Securities Act. The Purchaser understands that the Company is under no obligation to register any of the Shares sold hereunder and the Warrant except as provided in Section 7.2. The Purchaser shall not dispose of the Shares, the Warrant or the Warrant Shares other than pursuant to offers and sales which are either (a) registered under the Securities Act and any applicable state securities law or (b) in the opinion of counsel satisfactory to the Company, exempt from the registration requirements of the Securities Act and any applicable securities law.

4.8 Passive Investor. The Purchaser is acquiring the Shares "solely for the purpose of investment" as such phrase is defined in 16 C.F.R. Section 801.1(i)(1) and the Purchaser has no intention of participating in the formulation, determination or direction of the basic business decisions of the Company.

4.9 Governmental Consent, etc. No consent, approval or authorization of, or designation, declaration or filing with, any governmental authority on the part of the Purchaser is required in connection with the valid execution and delivery of this Agreement or the consummation of any transaction contemplated hereby. There is no order in effect enjoining or restricting the Purchaser from executing, delivering or performing this Agreement.

SECTION 5

Conditions to Obligation of the Purchaser

The Purchaser's obligation to purchase the Shares at the Closing is subject to the fulfillment on or prior to the Closing Date of the following conditions:

5.1 Representations and Warranties. Each of the representations and warranties of the Company contained in Section 3 will be true and correct on and as of the date hereof and on and as of the Closing Date with the same effect as though such representations and warranties had been made as of the Closing Date. The Purchaser shall have received a certificate signed by an officer of the Company to such effect on the Closing Date, except that no such certificate shall be necessary if this Agreement is executed on the Closing Date.

5.2 Covenants. All covenants, agreements and conditions contained in this Agreement to be performed by the Company on or prior to the Closing Date shall have been performed or complied with in all material respects. The Purchaser shall have received a certificate signed by an officer of the Company to such effect on the Closing Date, except that no such certificate shall be necessary if this Agreement is executed on the Closing Date.

5.3 No Order Pending; Governmental Consent, etc. There shall not then be in effect any order enjoining or restraining the transactions contemplated by this Agreement.

5.4 No Law Prohibiting or Restricting Sale of the Shares. There shall not be in effect any law, rule or regulation prohibiting or restricting the sale of the Shares, or requiring any consent or approval of any person which shall not have been obtained to issue the Shares.

5.5 Warrant. The Company shall have executed and delivered the Warrant substantially in the form attached hereto as Exhibit A.

5.6. Development Agreement. The Company shall have executed and delivered a Development and License Agreement in a form acceptable to the

Purchaser.

5.7 Opinion of Counsel. The Purchaser shall have received an opinion dated as of the Closing Date of Lowenstein Sandler PC, counsel to the Company, substantially in the form attached as Exhibit 5.7.

SECTION 6

Conditions to Obligation of the Company

The Company's obligation to sell and issue the Shares at the Closing is subject to the fulfillment on or prior to the Closing Date of the following conditions:

6.1 Representations and Warranties. The representations and warranties of the Purchaser contained in Section 4 will be true and correct on and as of the date hereof and on and as of the Closing Date with the same effect as though such representations and warranties had been made as of the Closing Date. The Company shall have received a certificate signed on behalf of the Purchaser by an officer of the Purchaser to such effect on the Closing Date, except that no such certificate shall be necessary if this Agreement is executed on the Closing Date.

6.2 Covenants. All covenants, agreements and conditions contained in this Agreement to be performed by the Purchaser on or prior to the Closing Date shall have been performed or complied with in all material respects. The Company shall have received a certificate signed on behalf of the Purchaser by an officer of the Purchaser to such effect on the Closing Date, except that no such certificate shall be necessary if this Agreement is executed on the Closing Date.

6.3 No Order Pending. There shall not then be in effect any order enjoining or restraining the transactions contemplated by this Agreement.

6.4 No Law Prohibiting or Restricting the Sale of the Shares. There shall not be in effect any law, rule or regulation prohibiting or restricting the sale of the Shares, or requiring any consent or approval of any person which shall not have been obtained to issue the Shares with full benefits afforded the Common Stock (except as otherwise provided in this Agreement).

6.5 Opinion of Counsel. The Company shall have received an opinion dated as of the Closing Date of Preston Gates & Ellis LLP, counsel to the Purchaser, substantially in the form attached as Exhibit 6.5.

SECTION 7

Covenants of the Parties

7.1 Restrictions on Transfer of Shares.

(a) Limitations in the First Year. Except as otherwise provided in

Section 7.1(c), for a period of one year from the date of this Agreement, the Purchaser shall not sell or transfer (i) any Shares acquired pursuant to this Agreement, (ii) the Warrant or any portion thereof or (iii) any Warrant Shares acquired upon exercise of the Warrant.

(b) Limitations in the Second Year. Except as otherwise provided in Section 7.1(c), after the first anniversary of the execution of this Agreement until the second anniversary thereof, the Purchaser shall not sell or transfer more than 50% of the Shares (i.e., the Purchaser may sell or transfer up to 50% of the Shares without restriction), shall not sell or transfer more than 50% of the Warrant Shares that may be acquired upon exercise of the Warrant (i.e., the Purchaser may sell or transfer up to 50% of such Warrant Shares without restriction) and shall not sell or transfer the Warrant or any portion thereof.

(c) Exceptions to Limitations on Transfer. Sections 7.1(a) and (b) shall not apply as follows:

(1) If (i) the Purchaser terminates, pursuant to Section 14.2 thereof, the Development and License Agreement referred to in Section 5.6 executed and delivered by the parties hereto concurrent with the execution of this Agreement (the "Development and License Agreement"); (ii) the Company and Purchaser mutually agree to terminate the Development and License Agreement; (iii) the Company terminates the Development and License Agreement without cause; or (iv) the Company shall consummate a merger, consolidation, reclassification, recapitalization, reorganization or similar transaction or be the subject of a tender offer where the offeror has announced the purchase of more than fifty percent (50%) of the outstanding shares and for which shareholder withdrawal rights have expired, so that, the stockholders of the Company immediately prior to any such transactions described in this clause (iv) do not, immediately after such transaction, have more than 50% of the voting power thereof.

(2) In the event that there shall occur an "Insolvency Proceeding" involving the Company. The term "Insolvency Proceeding" shall mean (i) an assignment for the benefit of creditors, (ii) the filing by the Company of a petition to have the Company adjudged insolvent, bankrupt or seeking a reorganization or liquidation under any law relating to bankruptcy, insolvency or receivership, (iii) an appointment of a receiver or trustee for all or substantially all of the assets of the Company unless appointed without the Company's consent, in which case if after sixty (60) days such appointment has not been vacated or stayed, (iv) a public admission in writing by the Company of the Company's inability to pay its debts as they become due, or (v) the adoption of a plan of liquidation or dissolution by the board of directors of the Company.

(3) The Purchaser may transfer the Shares, the Warrant and the Warrant Shares to any entity of which the Purchaser owns more than 50% of the voting power thereof (a "Controlled Entity"), so long as such Controlled Entity agrees to hold such Shares, the Warrant and such Warrant Shares subject to all the provisions of this Agreement, including this Section 7.1, and agrees to transfer such Shares, the Warrant and such Warrant Shares to the Purchaser or

another Controlled Entity of the Purchaser if it ceases to be a Controlled Entity of the Purchaser.

(4) After the second anniversary of the execution of this Agreement, the Purchaser may sell or transfer any or all of the Shares, the Warrant and the Warrant Shares without any restriction under this Section 7.

(5) The restrictions on transfer in this Section 7 shall not prevent the Purchaser from entering into bona fide hedging transactions (including any derivative transaction) with one or more nationally recognized investment banking firms as a means to hedge fluctuations in the market price of the Shares, provided that such transactions do not impair, in any respect, the Company's reliance upon Section 4(2) of the Securities Act to exempt the issuance of the Shares, the Warrant and the Warrant Shares from the registration requirements of the Securities Act or the Company's reliance upon exemptions from the registration requirements of applicable state securities laws.

7.2 Registration of Shares. (a) On or before April 16, 1999, the Company shall register 440,681 of the Shares and all of the Warrant Shares for resale by filing with the SEC a registration statement on Form S-3 (electing to rely on rule 415) and shall thereafter use its best efforts to have the registration statement declared effective as promptly as practicable.

(b) On or before January 15, 2000, the Company shall register the Shares not previously registered for resale by filing with the SEC a registration statement on Form S-3 (electing to rely on rule 415) and shall thereafter use its best efforts to have the registration statement declared effective as promptly as practicable.

(c) The Company will provide the Purchaser the opportunity to comment on the registration statements prior to its filing and will incorporate the Purchaser's reasonable comments (provided such comments are consistent with this Agreement) with respect to information concerning the Purchaser and the plan of distribution. The Company shall use its best efforts to keep the registration statements effective until such time as all the Shares and the Warrant Shares held by the Purchaser may be sold pursuant to Rule 144 within a three-month period.

7.3 Nasdaq Listing. The Company shall use its best efforts to cause the Shares and the Warrant Shares, issuable to the Purchaser pursuant to this Agreement (including shares issuable under the Warrant) to be authorized for listing as a Nasdaq National Market Security on the Nasdaq Stock Market, or a national securities exchange.

SECTION 8 Miscellaneous

8.1 Best Efforts. Each of the Company and the Purchaser shall use its best efforts to take all actions required under any law, rule or regulation adopted subsequent to the date hereto to ensure that the conditions to the Closing set forth herein are satisfied on or before the Closing Date.

8.2 Governing Law. This Agreement shall be governed in all respects by the internal laws of the State of Washington as applied to contracts entered into solely between residents of, and to be performed entirely within, such state, and without reference to its principles of conflicts of laws or choice of laws.

8.3 Survival; Termination of Covenants. The representations and warranties in Sections 3 and 4 of this Agreement shall survive the Closing for a period of five years from the date hereof. The covenants in Section 7 shall survive the consummation of the transaction provided for herein and shall terminate on the date specified therein or upon the satisfaction of the condition or conditions stated therein.

8.4 Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

8.5 Entire Agreement; Amendment. This Agreement and the Warrant constitute the full and entire understanding and agreement between the parties with regard to the subject matter hereof and thereof and supersede all prior agreements and understandings among the parties relating to the subject matter hereof. Neither this Agreement nor any term hereof may be amended, waived, discharged or terminated other than by a written instrument signed by the party against whom enforcement of any such amendment, waiver, discharge or termination is sought.

8.6 Notices. All notices, requests, demands or other communications which are required or may be given pursuant to the terms of this Agreement shall be in writing and shall be deemed to have been duly given: (i) on the date of delivery if personally delivered by hand, (ii) upon the third day after such notice is (a) deposited in the United States mail, if mailed by registered or certified mail, postage prepaid, return receipt requested, or (b) sent by a nationally recognized overnight express courier, or (iii) by facsimile upon written confirmation (other than the automatic confirmation that is received from the recipient's facsimile machine) of receipt by the recipient of such notice:

(a) if to the Company, to it at:

Dialogic Corporation
1515 Route 10
Parsippany, NJ 07054
Facsimile Number: (973) 993-3060
Attention: Chief Financial Officer

and with a copy to:

Dialogic Corporation
1515 Route 10
Parsippany, NJ 07054

(b) if to the Purchaser, to it at:

Microsoft Corporation
One Microsoft Way
Building 8 North Office 2211
Redmond, WA 98052
Attention: Chief Financial Officer
Facsimile Number: (425) 936-7369

with a copy addressed as set forth above but to the attention of General Counsel, Finance and Administration, Facsimile Number: (425) 869-1327

with a copy to:

Mark R. Beatty
Preston Gates & Ellis LLP
5000 Columbia Center
701 Fifth Avenue
Seattle, WA 98104-7078
Facsimile Number: (206) 623-7022

8.7 Brokers. (a) The Company has not engaged, consented to or authorized any broker, finder or intermediary to act on its behalf, directly or indirectly, as a broker, finder or intermediary in connection with the transactions contemplated by this Agreement. The Company hereby agrees to indemnify and hold harmless the Purchaser from and against all fees, commissions or other payments owing to any party acting on behalf of the Company hereunder.

(b) The Purchaser has not engaged, consented to or authorized any broker, finder or intermediary to act on its behalf, directly or indirectly, as a broker, finder or intermediary in connection with the transactions contemplated by this Agreement. The Purchaser hereby agrees to indemnify and hold harmless the Company from and against all fees, commissions or other payments owing to any party acting on behalf of the Purchaser hereunder.

8.8 Fees, Costs and Expenses. All fees, costs and expenses (including attorneys' fees and expenses) incurred by either party hereto in connection with the preparation, negotiation and execution of this Agreement and the Warrant and the consummation of the transactions contemplated hereby and thereby, shall be the sole and exclusive responsibility of such party.

8.9 Severability. If any term, provision, covenant or restriction of this Agreement or the Warrant is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restriction of this Agreement or the Warrant shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

8.10 Counterparts. This Agreement may be executed in two or more partially or fully executed counterparts and by facsimile signatures each of which shall be deemed an original and shall bind the signatory, but all of which together shall constitute but one and the same instrument. The execution and delivery of a Signature Page - Common Stock and Warrant Purchase Agreement in the form attached to this Agreement by any party hereto who shall have been furnished the final form of this Agreement shall constitute the execution and delivery of this Agreement by such party.

8.11 Initial Public Announcement. The Company and the Purchaser have agreed on the form and content of the initial public announcement which shall be made concerning this Agreement and the Warrant and the transactions contemplated hereby and thereby. Neither the Company nor the Purchaser shall make any other public announcement regarding this Agreement, the Warrant and the transactions contemplated hereby and thereby without the consent of the other, except for (a) press releases and other public announcements that are consistent with and that confirm such initial public announcement and (b) other press releases or public announcements as required by law.

[remainder of this page is intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective authorized officers as of the date set forth above.

DIALOGIC CORPORATION

By:

Name:

Title:

MICROSOFT CORPORATION

By:

Name:

Title:

COMMON STOCK AND WARRANT PURCHASE AGREEMENT

Dated as of March 1, 1999

Between

DIALOGIC CORPORATION

and

MICROSOFT CORPORATION

EXHIBIT A

THIS WARRANT HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAW. NO TRANSFER OF THIS WARRANT SHALL BE VALID OR EFFECTIVE UNLESS (A) SUCH TRANSFER IS MADE PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAW, OR (B) THE HOLDER SHALL DELIVER TO THE COMPANY AN OPINION OF COUNSEL IN FORM AND SUBSTANCE REASONABLY ACCEPTABLE TO THE COMPANY THAT SUCH TRANSFER IS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND OF ANY APPLICABLE STATE SECURITIES LAW.

Warrant No. M-1

March 1, 1999

DIALOGIC CORPORATION

COMMON STOCK PURCHASE WARRANT

Dialogic Corporation, a New Jersey corporation (the "Company"), hereby grants to Microsoft Corporation, a Washington corporation ("Microsoft"), or its permitted assigns or transferees (Microsoft and each such permitted assignee or transferee being referred to herein as a "holder" and collectively as the "holders") the right to purchase, at any time after the Exercise Date (as defined below) and from time to time on and after the date hereof until the Expiration Date (as defined below), up to 279,869 fully paid and non-assessable shares of Common Stock of the Company, no par value, (the "Common Stock"), on the terms and subject to the conditions set forth below.

This Common Stock Purchase Warrant (hereinafter, this "Warrant") was originally issued on March 1, 1999 (the "Original Issue Date"). This Warrant shall expire and be of no further force or effect on the date (the "Expiration Date") four (4) years from the Original Issue Date.

1. Exercise of Warrant.

1.1 Exercise and Vesting. Subject to adjustment as hereinafter provided, the rights represented by this Warrant are exercisable on and after the date hereof (the "Exercise Date") until the Expiration Date, at a price per

share (the "Exercise Price") of the Common Stock issuable hereunder (hereinafter, "Warrant Shares") equal to \$35.19. The Exercise Price shall be payable in cash or by certified or official bank check in immediately available funds as hereinafter provided or in accordance with Section 1.2 below. This Warrant is fully vested.

Upon surrender of this Warrant with a duly executed Notice of Exercise in the form of Annex A hereto, together with payment, if applicable, of the Exercise Price for the Warrant Shares purchased, at the Company's principal executive offices presently located at 1515 Route 10, Parsippany, NJ 07054, or at such other address as the Company shall have advised the holder in writing (the "Designated Office"), the holder shall be entitled to receive a certificate or certificates for the Warrant Shares so purchased. The Company agrees that the Warrant Shares shall be deemed to have been issued to the holder as of the close of business on the date on which this Warrant shall have been surrendered together with the Notice of Exercise and payment, if applicable, for such Warrant Shares.

1.2 Right to Convert.

(a) Subject to the provisions of Section 1.1, at any time or from time on or prior to the Expiration Date, the holder of this Warrant shall also have the right to convert this Warrant or any portion thereof (the "Conversion Right"), without payment by the holder of this Warrant of the Exercise Price in cash or any other consideration (other than the surrender of rights to receive Warrant Shares hereunder), into shares of Common Stock as provided in this Section 1.2. Upon exercise of the Conversion Right with respect to a particular number of Warrant Shares (the "Converted Warrant Shares"), the Company shall deliver to the holder of this Warrant (without payment by the holder of this Warrant of the Exercise Price in cash or any other consideration (other than the surrender of rights to receive Warrant Shares hereunder)) that number of shares of Common Stock computed using the following formula: [OBJECT OMITTED] $N = CWS * (CMP - EP)$ CMP Where:

N = the number of shares of Common Stock to be issued to holder;

CWS = the Converted Warrant Shares, which is either (1) the total number of shares of Common Stock purchasable under the Warrant or, if only a portion of the Warrant is being exercised, (2) the portion of the Warrant Shares being exercised and canceled (as of the Conversion Date as defined by Section 1.2(b));

CMP = the Current Market Price of one share of Common Stock, as defined in Section 1.2(c) (as of the Conversion Date); and

EP = Exercise Price (as of the Conversion Date).

No fractional Warrant Shares shall be issuable upon exercise of the Conversion Right, and if the number of Warrant Shares to be issued determined in accordance with the above formula is other than a whole number, the Company shall pay to the holder of this Warrant an amount in cash equal to the Current Market Price

of the resulting fractional Warrant Share on the Conversion Date.

(b) The Conversion Right may be exercised by the holder of this Warrant by the surrender of this Warrant as provided in Section 1.1, together with a written statement specifying that the holder of this Warrant thereby intends to exercise the Conversion Right and indicating the number of Converted Warrant Shares which are covered by the exercise of the Conversion Right. Such conversion shall be effective upon receipt by the Company of this Warrant, together with such written statement, or on such later date as is specified therein (the "Conversion Date"). The Company shall issue to the holder of this Warrant as of the Conversion Date a certificate for the Warrant Shares issuable upon exercise of the Conversion Right and, if applicable, a new warrant of like tenor evidencing the balance of the Warrant Shares remaining subject to this Warrant.

(c) The term "Current Market Price" for the Common Stock shall mean: (i) if the Common Stock is publicly traded on the date of a duly executed Notice of Exercise, the closing price per share on the day immediately preceding delivery of such duly executed Notice of Exercise as reported on the principal stock exchange or quotation system on which the Common Stock is listed or quoted; or (ii) if the Common Stock is not publicly traded on such date, the fair value of the Common Stock as determined in the good faith judgment of the Company's board of directors; provided, however, that if the holder of this Warrant objects to the decision of the board of directors, then the appraised value per share of Common Stock as of such date shall be determined by an investment banking firm of nationally recognized standing selected and paid for by the Company and reasonably satisfactory to the holder hereof. In the event that the holder disputes such appraised value, the holder shall be entitled to select an additional investment banking firm of recognized standing and paid for by the holder to calculate the appraised value. The Company and the holder shall use their good faith best efforts to agree on the appraised value based on the reports of the two investment banking firms. In the event that the Company and the holder are still unable to reach agreement as to the appraised value, the Company and the holder agree to submit such determination to binding arbitration, with the cost of such arbitration to be shared equally by the Company and the holder.

2. Transfer; Issuance of Stock Certificates; Restrictive Legends.

2.1. Transfer. Until the second anniversary of the issue date hereof, this Warrant shall not be transferable by the holder thereof except to any entity in which the holder owns more than 50% of the voting power thereof (a "Controlled Entity"), so long as such Controlled Entity agrees to hold the Warrant and such Warrant Shares subject to all the provisions of this Agreement and Section 7.1 of the Common Stock and Warrant Purchase Agreement by and between the Company and Microsoft (the "Common Stock and Warrant Purchase Agreement"), and agrees to transfer the Warrant and such Warrant Shares to the holder or another Controlled Entity of the holder if it ceases to be a Controlled Entity of the Purchaser. After the second anniversary of the issue date hereof, this Warrant may be transferred in whole but not in part by the holder without restriction (other than restrictions, if any, imposed by Section

Subject to compliance with the restrictions on transfer set forth in this Section 2, each transfer of this Warrant and all rights hereunder, in whole or in part, shall be registered on the books of the Company to be maintained for such purpose, upon surrender of this Warrant at the Designated Office, together with a written assignment of this Warrant in the form of Annex B hereto duly executed by the holder or its agent or attorney. Upon such surrender and delivery, the Company shall execute and deliver a new warrant or warrants in the name of the assignee or assignees and in the denominations specified in such instrument of assignment, and shall issue to the assignor a new warrant evidencing the portion of this Warrant not so assigned, if any. A warrant, if properly assigned in compliance with the provisions hereof, may be exercised by the new holder for the purchase of Warrant Shares without having a new warrant issued. All warrants issued upon any assignment of warrants shall be the valid obligations of the Company, evidencing the same rights, and entitled to the same benefits as the warrants surrendered upon such registration of transfer or exchange.

2.2 Stock Certificates. Certificates for the Warrant Shares shall be delivered to the holder within a reasonable time after the rights represented by this Warrant shall have been exercised pursuant to Section 1, and a new warrant representing the share, shares or fraction of a share of Common Stock, if any, with respect to which this Warrant shall not then have been exercised shall also be issued to the holder within such time. The issuance of certificates for Warrant Shares upon the exercise of this Warrant shall be made without charge to the holder hereof including, without limitation, any tax that may be payable in respect thereof; provided, however, that the Company shall not be required to pay any income tax to which the holder hereof may be subject in connection with the issuance of this Warrant or the Warrant Shares.

2.3. Restrictive Legends. (a) Except as otherwise provided in this Section 2.3, each certificate for Warrant Shares issued upon such exercise of this Warrant, shall be stamped or otherwise imprinted with a legend in substantially the following form:

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAW. NO TRANSFER OF THE SHARES REPRESENTED BY THIS CERTIFICATE SHALL BE VALID OR EFFECTIVE UNLESS (A) SUCH TRANSFER IS MADE PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS, OR (B) THE HOLDER SHALL DELIVER TO THE COMPANY AN OPINION OF COUNSEL IN FORM AND SUBSTANCE REASONABLY ACCEPTABLE TO THE COMPANY THAT SUCH PROPOSED TRANSFER IS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND OF ANY APPLICABLE STATE SECURITIES LAWS.

(b) Except as otherwise provided in this Section 2.3, each certificate for Warrant Shares issued upon such exercise of this Warrant, shall be stamped or otherwise imprinted with a legend in substantially the following form:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON TRANSFER SET FORTH IN A COMMON STOCK AND WARRANT PURCHASE AGREEMENT DATED AS OF MARCH 1, 1999 BETWEEN THE COMPANY AND MICROSOFT CORPORATION, A COPY OF WHICH AGREEMENT MAY BE OBTAINED AT NO COST BY WRITTEN REQUEST MADE BY THE HOLDER OF RECORD OF THIS CERTIFICATE TO THE SECRETARY OF THE COMPANY AT THE COMPANY'S PRINCIPAL EXECUTIVE OFFICES.

(c) Except as otherwise provided in this Section 2.3, each Warrant shall be stamped or otherwise imprinted with a legend in substantially the following form:

THIS WARRANT HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS. NO TRANSFER OF THIS WARRANT SHALL BE VALID OR EFFECTIVE UNLESS (A) SUCH TRANSFER IS MADE PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS, OR (B) THE HOLDER SHALL DELIVER TO THE COMPANY AN OPINION OF COUNSEL IN FORM AND SUBSTANCE REASONABLY ACCEPTABLE TO THE COMPANY THAT SUCH TRANSFER IS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND OF ANY APPLICABLE STATE SECURITIES LAWS.

(d) The Company agrees (i) to remove the legend set forth in Section 2.3(a) upon (a) receipt of a request from the holder after registration of the Warrant Shares under the Securities Act in which the holder represents that the Warrant Shares are being sold or otherwise transferred in a transaction of the character (including lending of securities) described in the plan of distribution of the registration statement applicable to such Warrant Shares, or (b) receipt of an opinion of counsel in form and substance reasonably satisfactory to the Company that the Warrant Shares are eligible for transfer without registration under the Securities Act; and (ii) to remove the legend set forth in Section 2.3(b) with respect to Warrant Shares that may be transferred from time to time upon the termination of the covenants of Section 7 of the Common Stock and Warrant Purchase Agreement executed by the Company and Microsoft as of March 1, 1999 as provided for in Section 8.3 thereof.

(e) The Company agrees, if the holder of the Warrant is not then, and has not then been for a period of three months, an affiliate of the Company and if the Warrant Shares have been acquired pursuant to Section 1.2 hereof, to remove (or, in the event the Warrant Shares are issued after the second anniversary of the issuance date of the Warrant, to issue the Warrant Shares without the legends specified by Sections 2.3(a) and (b)) the legends set forth in Section 2.3(a), (b) and (c) on and after the second anniversary date of the issuance of this Warrant.

3. Adjustment of Number of Warrant Shares; Exercise Price; Nature of Securities Issuable Upon Exercise of Warrants.

3.1 Exercise Price; Adjustment of Number of Warrant Shares. The Exercise Price set forth in Section 1 hereof and the number of shares purchasable hereunder shall be subject to adjustment from time to time as hereinafter provided.

3.2 Reorganization, Reclassification, Consolidation, Merger or Sale. If any capital reorganization or reclassification of the capital stock of the Company, or any consolidation or merger of the Company with another entity, or the sale of all or substantially all of the Company's assets to another person or entity (collectively referred to as a "Transaction") shall be effected in such a way that holders of Common Stock shall be entitled to receive stock, securities, cash or assets with respect to or in exchange for Common Stock, then, as a condition of such Transaction, reasonable, lawful and adequate provisions shall be made whereby the holder of this Warrant shall thereafter have the right to purchase and receive upon the basis and upon the terms and conditions specified in this Warrant, upon exercise of this Warrant and in lieu of the Warrant Shares immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby, such number, amount and like kind of shares of stock, securities, cash or assets as may be issued or payable pursuant to the terms of the Transaction with respect to or in exchange for the number of shares of Common Stock immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby as if such shares were outstanding immediately prior to the Transaction, and in any such case appropriate provision shall be made with respect to the rights and interest of the holders to the end that the provisions hereof (including, without limitation, provisions for adjustments of the Exercise Price and of the number of Warrant Shares purchasable and receivable upon the exercise of this Warrant) shall thereafter be applicable, as nearly as may be practicable, in relation to any shares of stock or securities thereafter deliverable upon the exercise hereof.

3.3 Stock Splits, Stock Dividends and Reverse Stock Splits. In case at any time the Company shall subdivide its outstanding shares of Common Stock into a greater number of shares, or shall declare and pay any stock dividend with respect to its outstanding stock that has the effect of increasing the number of outstanding shares of Common Stock, the Exercise Price in effect immediately prior to such subdivision or stock dividend shall be proportionately reduced and the number of Warrant Shares purchasable pursuant to this Warrant immediately prior to such subdivision or stock dividend shall be proportionately increased, and conversely, in case at any time the Company shall combine its outstanding shares of Common Stock into a smaller number of shares, the Exercise Price in effect immediately prior to such combination shall be proportionately increased and the number of Warrant Shares purchasable upon the exercise of this Warrant immediately prior to such combination shall be proportionately reduced.

3.4 Issuance of Additional Shares of Common Stock. If at any time prior to the Expiration Date the Company shall issue any Additional Shares of Common Stock (as defined below) for a consideration per share (the "Subsequent Issue Price") that is less than the lesser of (a) ninety-five percent (95%) of the average market price ("Average Market Price") in effect immediately prior to such issuance (calculated on the basis of the average closing price for the 20

trading days preceding such issuance) and (b) one hundred percent (100%) of the last closing price available prior to such issuance (the "Market Price"; the lesser of the Average Market Price and the Market Price being referred to hereinafter as the "Adjustment Price"), then, upon such issuance, the Exercise Price shall be reduced to the lower of the prices calculated in the following subparagraphs (a) or (b) by:

(a) dividing (i) an amount equal to the sum of (x) the number of shares of Common Stock outstanding immediately prior to such issuance multiplied by the Exercise Price then in effect plus (y) the aggregate consideration, if any, received by the Company in connection with such issuance by (ii) the total number of shares of Common Stock outstanding immediately after such issuance; and

(b) multiplying the then existing Exercise Price by a fraction, the numerator of which shall be the quotient obtained by dividing (i) the sum of (x) the number of shares of Common Stock outstanding immediately prior to such issuance multiplied by the Adjustment Price per share of Common Stock immediately prior to such issuance plus (y) the aggregate consideration received by the Company in connection with such issuance divided by (ii) the total number of shares of Common Stock outstanding immediately after such issuance, and the denominator of which shall be the Adjustment Price per share of Common Stock immediately prior to such issuance.

For purposes of this Section 3.4, "Additional Shares of Common Stock" shall mean all shares of Common Stock issued or issuable by the Company after the Original Issue Date, other than (i) shares issued pursuant to the Company's stock purchase plans, stock incentive plans, and any other Company plan or contract adopted for the benefit of employees, directors or consultants (but only if such consultants are eligible to have their shares registered on Form S-8), including without limitation options and benefits assumed by the Company in connection with acquisitions and other similar transactions, whether such stock purchase plans, stock incentive plans, or other plan or contract is in effect on the date hereof or adopted subsequent to the date hereof (the "Employee Stock"); (ii) shares issued by the Company in an underwritten public offering; (iii) shares issued by the Company in connection with an acquisition of a business or business assets involving receipt of property or other noncash consideration where the Company's board of directors has made a good faith judgment that the consideration received is fair value for the issuance of the shares; provided, however, that this clause (iii) shall not be interpreted to include the issuance of options, warrants, or other Convertible Securities (as defined below) that do not qualify as Employee Stock; and (iv) shares issued pursuant to rights, warrants or options for a Subsequent Issue Price that, on the date of grant of such rights, warrants or options, is at least equal to the lesser of (a) ninety-five percent (95%) of the Average Market Price on the date of such grant and (b) the Market Price on the date of such grant.

For purposes of this Section 3.4, in the case of securities that are convertible into or exchangeable for Common Stock ("Convertible Securities"), there shall be determined the price per share for which Additional Shares of Common Stock are issuable upon the conversion or exchange thereof, such

determination to be made by dividing (i) the total amount received or receivable by the Company as consideration for the issue or sale of such Convertible Securities, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon conversion or exchange thereof by (ii) the maximum aggregate number of Additional Shares of Common Stock issuable upon conversion or exchange of all such Convertible Securities for such minimum aggregate amount of additional consideration; and such issue or sale shall be deemed to be an issue or sale for cash (as of the date of issue or sale of such Convertible Securities, whether or not then exercisable or convertible) of such maximum number of Additional Shares of Common Stock at the price per share so determined.

If any rights of conversion or exchange evidenced by Convertible Securities the issuance of which resulted in an adjustment to the Exercise Price and the number of Warrant Shares issuable hereunder pursuant to this Section 3.4 shall expire without having been exercised, or if any such Convertible Securities are exercised for a consideration greater than or for a number of Additional Shares of Common Stock less than those used for purpose of determining the adjustment to the Exercise Price provided in this Section 3.4, the adjusted Exercise Price shall forthwith be readjusted to such Exercise Price as would have been in effect had an adjustment with respect to such Convertible Securities been made on the basis that the only Additional Shares of Common Stock issued or sold were those issued upon the conversion or exchange of such Convertible Securities, and that they were issued or sold for the consideration actually received by the Company upon such exercise, plus the consideration, if any, actually received by the Company for the granting of such Convertible Securities.

In addition, upon adjustment of the Exercise Price under this Section 3.4, the holder hereof shall thereafter be entitled to purchase at the Exercise Price resulting from such adjustment a number of Warrant Shares obtained by multiplying the Exercise Price immediately prior to such issuance by the number of Warrant Shares purchasable pursuant hereto immediately prior to such issuance and dividing the product thereof by the Exercise Price resulting from such adjustment. The provisions of this Section 3.4 shall not apply to any issuance of Common Stock (i) for which an adjustment is provided for under Sections 3.2 or 3.3 or (ii) upon exercise of any option, right or warrant of the Company outstanding on the Original Issue Date. Notwithstanding anything to the contrary in this Section 3.4, in no event shall (i) the Exercise Price be increased or (ii) the number of Warrant Shares purchasable hereunder be decreased pursuant to the provisions of this Section 3.4.

3.5 Dissolution, Liquidation or Wind-Up. In case the Company shall, at any time prior to the exercise of this Warrant, dissolve, liquidate or wind up its affairs, the holder hereof shall be entitled, upon the exercise of this Warrant, to receive, in lieu of the Warrant Shares which the holder would have been entitled to receive, the same kind and amount of assets as would have been issued, distributed or paid to such holder upon any such dissolution, liquidation or winding up with respect to such Warrant Shares, had such holder hereof been the holder of record of the Warrant Shares receivable upon the exercise of this Warrant on the record date for the determination of those

persons entitled to receive any such liquidating distribution.

3.6 Accountant's Certificate. In each case of an adjustment in the Exercise Price, number of Warrant Shares or other stock, securities or property receivable upon the exercise of this Warrant, the Company shall compute, and upon the holder's request shall at the Company's expense cause independent public accountants of nationally recognized standing selected by the Company to certify such computation, such adjustment in accordance with the terms of this Warrant and prepare a certificate setting forth such adjustment and showing in detail the facts upon which such adjustment is based, including a statement of (i) the number of shares of Common Stock of each class outstanding or deemed to be outstanding, (ii) the adjusted Exercise Price and (iii) the number of Warrant Shares issuable upon exercise of this Warrant. The Company will forthwith mail a copy of each such certificate to the holder hereof. In the event that the holder disputes such adjustment, the holder shall be entitled to select an additional firm of independent certified public accountants of national standing and paid for by the holder to certify such adjustment and the Company and the holder shall use their good faith best efforts to agree on such adjustment based on the reports of the two accounting firms. In the event that the Company and the holder are still unable to reach agreement as to such adjustment, the Company and the holder agree to submit such determination to binding arbitration. Upon determination of such adjustment, the board of directors shall forthwith make the adjustments described therein.

4. Anti-Dilution.

In the event that the Company at any time after the Original Issue Date shall pay a special dividend or make any other distribution with respect to its Common Stock (or any other shares of the capital stock of the Company for which this Warrant becomes exercisable pursuant to Section 3 above) in the form of cash or other property (other than (i) a distribution to which the provisions of Section 3.2 apply, (ii) a stock dividend subject to the provisions of Section 3.3 above or (iii) a cash dividend announced by the Company as intended to be a dividend paid on a regular periodic basis), at the election of the holder, either:

(i) The Exercise Price in effect immediately prior to the record date with respect to such distribution or issuance (the "Adjustment Date") shall forthwith be adjusted effective on the Adjustment Date to a price determined by multiplying such Exercise Price by a fraction (x) the numerator of which shall be the closing price of the Company's Common Stock as publicly reported on the primary exchange or market on which it is listed (the "Exchange") on the next trading day following the Adjustment Date (the "Post-Event Market Price"), and (y) the denominator of which shall be the average closing price of the Company's Common Stock as publicly reported on the Exchange over the ten trading days preceding the Adjustment Date (the "Pre-Event Market Price") and after each such adjustment of the Exercise Price, the total number of shares then issuable upon exercise of the Warrant shall be adjusted by multiplying such number of shares issuable upon exercise of the Warrant by a fraction (x) the numerator of which shall be the amount obtained by subtracting the Exercise Price in effect immediately prior to the Adjustment Date from the Pre-Event Market Price for the

Company's Common Stock and (y) the denominator of which shall be the amount obtained by subtracting the Exercise Price in effect immediately following the Adjustment Date from the Post-Event Market Price for the Company's Common Stock; or

(ii) The Company shall deliver to the holder hereof a dilution fee (a "Dilution Fee") payable in cash on the date of payment of such dividend or other distribution equal to the number of shares of Common Stock (or such other shares of stock) issuable upon exercise of this Warrant on such date multiplied by the amount of cash and the fair value of any other property distributed with respect to each share of Common Stock (or such other stock). The fair value of any such other property shall mean the fair market value thereof on the record date for such dividend, as determined by the board of directors of the Company in good faith and supported, upon the request of the holder, by an opinion of an investment banking firm or appraisal firm of recognized national standing selected by the Company and acceptable to the holder.

Notwithstanding the foregoing, in no event shall the Exercise Price be increased or the number of Warrant Shares issuable upon exercise hereof be reduced pursuant to the provisions of this Section 4.

5. Registration; Exchange and Replacement of Warrant; Reservation of Shares.

The Company shall keep at the Designated Office a register in which the Company shall provide for the registration, transfer and exchange of this Warrant. The Company shall not at any time, except upon the dissolution, liquidation or winding-up of the Company, close such register so as to result in preventing or delaying the exercise or transfer of this Warrant.

The Company may deem and treat the person in whose name this Warrant is registered as the holder and owner hereof for all purposes and shall not be affected by any notice to the contrary, until presentation of this Warrant for registration or transfer as provided in this Section 5.

Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and upon surrender and cancellation of this Warrant, if mutilated, the Company will make and deliver a new warrant of like tenor, in lieu of this Warrant without requiring the posting of any bond or the giving of any security.

The Company shall at all times reserve and keep available out of its authorized shares of Common Stock, solely for the purpose of issuance upon the exercise of this Warrant, such number of shares of Common Stock as shall be issuable upon the exercise hereof. The Company covenants and agrees that, upon exercise of this Warrant and payment of the Exercise Price therefor, if applicable, all Warrant Shares issuable upon such exercise shall be duly and validly issued, fully paid and non-assessable.

6. Company Information.

Until the exercise of this Warrant, the Company shall deliver to each holder hereof or of Warrant Shares one copy of each of the following items:

(i) as soon as available, and in any event within forty-eight (48) days after the end of each of the first three fiscal quarters of the Company's fiscal year, its Form 10-Q as filed with the Securities and Exchange Commission (the "Commission") for such quarter or if the Company is not publicly traded its unaudited interim consolidated balance sheets of the Company and its subsidiaries as of the end of such quarter and the related consolidated statements of income and cash flow of the Company and its subsidiaries for the period from the beginning of the current fiscal year to the end of such quarter, all in reasonable detail and certified by a principal financial officer of the Company, as prepared in accordance with generally accepted accounting principles ("GAAP") consistently applied (subject to year end adjustments and the absence of footnotes), and fairly presenting the consolidated financial position and results of operations of the Company and its subsidiaries for such periods;

(ii) within one hundred and twenty-three (123) days after the end of each fiscal year of the Company, its Form 10-K as filed with the Commission for such fiscal year or if the Company is not publicly traded its consolidated balance sheets of the Company and its subsidiaries as of the end of such year and the related consolidated statements of income, cash flow and stockholders' equity of the Company and its subsidiaries for such fiscal year, setting forth in each case in comparative form the consolidated figures for the previous fiscal year, all in reasonable detail and accompanied by a report thereon of independent public accountants of recognized national standing selected by the Company, which report shall state that such consolidated financial statements present fairly the financial position of the Company and its subsidiaries as at the dates indicated and the results of their operations and changes in their financial position for the periods indicated in conformity with GAAP applied on a basis consistent with prior years (except as otherwise specified in such report) and that the audit by such accountants in connection with such consolidated financial statements has been made in accordance with generally accepted auditing standards; and

(iii) promptly upon their becoming available, copies of all financial statements, reports, proxy statements, notices, documents or other communications sent or made available generally by the Company to any class of its security holders.

7. Notices.

All notices, requests, consents and other communications hereunder shall be in writing and shall be deemed to have been duly made when delivered personally, or mailed by registered or certified mail, return receipt requested, or telecopied or telexed and confirmed in writing and delivered personally or mailed by registered or certified mail, return receipt requested:

(a) If to the holder of this Warrant, to the address of such holder as shown on the books of the Company; or

(b) If to the Company, to the address set forth in Section 1 of this Warrant;

or at such other address as the holder or the Company may hereafter have advised the other.

8. Successors.

All the covenants, agreements, representations and warranties contained in this Warrant shall bind the parties hereto and their respective heirs, executors, administrators, distributees, successors, assigns and transferees.

9. Law Governing.

This Warrant shall be construed and enforced in accordance with, and governed by, the laws of the State of Washington (not including the choice of law rules thereof) regardless of the jurisdiction of creation or domicile of the Company or its successors or of the holder at any time hereof.

10. Entire Agreement; Amendments and Waivers.

This Warrant sets forth the entire understanding of the parties with respect to the transactions contemplated hereby. The failure of any party to seek redress for the violation or to insist upon the strict performance of any term of this Warrant shall not constitute a waiver of such term and such party shall be entitled to enforce such term without regard to such forbearance. This Warrant may be amended, and any breach of or compliance with any covenant, agreement, warranty or representation may be waived, only if the Company has obtained the written consent or written waiver of the holder, and then such consent or waiver shall be effective only in the specific instance and for the specific purpose for which given.

11. Severability; Headings.

If any term of this Warrant as applied to any person or to any circumstance is prohibited, void, invalid or unenforceable in any jurisdiction, such term shall, as to such jurisdiction, be ineffective to the extent of such prohibition or invalidity without in any way affecting any other term of this Warrant or affecting the validity or enforceability of this Warrant or of such provision in any other jurisdiction. The Section headings in this Warrant have been inserted for purposes of convenience only and shall have no substantive effect.

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed as of the date first written above.

DIALOGIC CORPORATION

By: _____
Name:
Title:

Accepted and agreed:

MICROSOFT CORPORATION

By: _____
Name:
Title:

ANNEX A

NOTICE OF EXERCISE

(To be executed upon partial or full
exercise of the Warrant)

The undersigned hereby irrevocably elects to exercise the right to purchase _____ shares of Common Stock of _____ Corporation covered by the Warrant according to the conditions hereof and herewith makes payment of the Exercise Price of such shares in full in the amount of \$_____.

By: _____
(Signature of Registered Holder)

Dated: _____

<TABLE>
<CAPTION>

Exhibit 11.1

DIALOGIC CORPORATION
CALCULATION OF NET INCOME PER SHARE
(In thousands, except per share amounts)

	Twelve months ended December 31,		
	1998	1997	1996
Basic Earnings			
<S>	<C>	<C>	<C>
Income applicable to shares used in			
Calculation of net income per share	\$ 36,608	\$ 21,752	\$ 25,548
Shares used in calculation of net income per share:			
Weighted average shares outstanding	16,010	15,931	15,654
Net income per share	\$ 2.29	\$ 1.37	\$ 1.63
Diluted Earnings			
Income applicable to shares used in			
Calculation or net income per share	\$ 36,608	\$ 21,752	\$ 25,548
Shares used in calculation of net income per share:			
Weighted average shares outstanding	16,010	15,931	15,654
Dilutive effect of stock options after application of treasury stock method	548	667	763
Number of shares in calculation of net income per share	16,558	16,598	16,417
Net income per share	\$ 2.21	\$ 1.31	\$ 1.56

</TABLE>

EXHIBIT 13

Selected Financial Data

The following selected consolidated financial data should be read in conjunction with the Company's Consolidated Financial Statements and the Notes to the Consolidated Financial Statements.

<TABLE>
<CAPTION>

Amounts in thousands, except per share data

Year ended December 31,	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Statement of Income Data:					
Revenues	\$293,525	\$261,310)	\$213,604	\$168,652	\$127,235)
Cost of goods sold	108,567	98,329)	84,764	66,829	50,841)
Gross profit	184,958	162,981)	128,840	101,823	76,394)
Research and development expense	65,350	51,530)	40,666	29,045	21,650)
Selling, general and administrative expenses	80,228	79,098)	60,052	47,673	34,646)
Asset impairment	5,297	-)	-	-	-)
Operating income	34,083	32,353)	28,122	25,105	20,098)
Merger costs	-	-)	-	1,294	-)
Interest income - net	3,099	1,637)	2,440	2,036	1,214)
Net realized (losses) gains on available for sale securities	32	(4)	9,175	309	(15)
Gain on sale of subsidiary	23,384	-)	-	-	-)
Income before provision for income taxes	60,598	33,986)	39,737	26,156	21,297)
Provision for income taxes	23,990	12,234)	14,189	9,854	5,408)
Net income	\$ 36,608	\$ 21,752)	\$ 25,548	\$ 16,302	\$ 15,889)
Income per share:					
Basic	\$ 2.29	\$ 1.37)	\$ 1.63	\$ 1.06	
Diluted	\$ 2.21	\$ 1.31)	\$ 1.56	\$ 1.02	
Shares used in the calculation of pro forma income per share:					
Basic	16,010	15,931)	15,654	15,340	
Diluted	16,558	16,598)	16,417	16,039	
Pro Forma Data:(1)					
Income before provision for income taxes as reported					\$21,297)
Provision for income taxes					7,689)
Net income					\$13,608)
Income per share:					
Basic					\$.99)
Diluted					\$.94)
Shares used in the calculation of pro forma income per share:					
Basic					13,774)
Diluted					14,509)
Balance Sheet Data:					
Working capital	\$139,559	\$119,920)	\$103,909	\$76,997	\$55,711)
Total assets	216,983	182,404)	147,270	117,362	81,864)
Long-term obligations, net of current maturities	2,475	2,481)	2,926	2,259	2,465)
Shareholders' equity(2)	175,677	144,865)	124,842	92,757	66,796)

<FN>

(1) During 1994 through the IPO in April 1994 (the "S Period"), the Company was an S corporation and, accordingly, was not subject to federal and certain state corporate income taxes. The pro forma statement of income information has been computed as if the Company had been subject to federal and all applicable state corporate income taxes during the S period, based on the statutory tax rates and the tax laws then in effect.

(2) The Company declared an aggregate of \$2.5 million in S Corporation dividends in 1994. No other dividends were declared during the periods presented.

</FN>

</TABLE>

Managements Discussion and Analysis of Financial Condition and Results of OperationsM

Business: Dialogic designs, manufactures and markets hardware and software enabling technologies for "computer telephony" systems. "Computer telephony" (CT) is the term used to encompass a wide variety of technologies and applications that use the information processing capabilities of a computer (often a server) to add intelligence to telephone functions and to combine these functions with data processing. The Company is headquartered in Parsippany, New Jersey, with regional headquarters in Tokyo, Japan; Brussels, Belgium; and Buenos Aires, Argentina. Dialogic employs approximately 1,250 people worldwide and has offices in over twenty countries around the world. The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and related Notes to the Consolidated Financial Statements.

Percentage of Revenues

The following table sets forth, for the periods indicated, certain statements of income data as a percentage of total revenues:

<TABLE>
<CAPTION>

Year ended December 31,	Percent of Sales			Percent Change		
	1998	1997	1996	1998 vs. 1997	1997 vs. 1996	1996 vs. 1995
	<C>	<C>	<C>	<C>	<C>	<C>
<S>						
Revenues	100.0%	100.0%	100.0%	12.3%	22.3%)	26.7%
Gross profit	63.0%	62.4%	60.3%	13.5%	26.5%)	26.5%
Research and development expense	22.3%	19.7%	19.0%	26.8%	26.7%)	40.0%
Selling, general and administrative expense (including amortization of goodwill)	27.3%	30.3%	28.1%	1.4%	31.7%)	26.0%
Asset impairment	1.8%	-%	-%	100.0%	-%)	-%)
Merger costs	-%	-%	-%	-%	-%)	100.0%
Interest income - net	1.1%	0.6%	1.1%	89.3%	(32.9)%	19.8%
Net realized gains on available for sale securities	-%	-%	4.3%	-%	(100.0)%	100.0%
Gain on sale of assets of subsidiary	8.0%	-%	-%	100.0%	-%)	-%)
						-%
Income before provision for income taxes	20.7%	13.0%	18.6%	78.3%	(14.5)%	51.9%
Provision for income taxes	8.2%	4.7%	6.6%	96.1%	(13.8)%	44.0%
Net income	12.5%	8.3%	12.0%	68.2(2)	(14.9)(1)	56.7(1))

<FN>

- (1) During 1996, the Company recorded a pre-tax gain of \$9.1 million as a result of its first quarter sale of a portion of its equity position in VCS. Excluding this gain, the percentage increase of 1997 compared with 1996 would have been 10.1%. The percentage increase for 1996 as compared to 1995 would have been 21.8%.
- (2) During 1998, the Company recorded a pre-tax gain of \$23.4 million as a result of its first quarter sale of a subsidiary and a charge of \$5.3 million for the write down of certain impaired assets. Excluding this gain and charge, the percentage increase of 1998 compared with 1997 would have been 25.6%. See notes 2 and 3 of the Company's Notes to the Consolidated Financial Statements.

</FN>

</TABLE>

Fiscal 1998 Compared to Fiscal 1997

Revenue: For the year ended December 31, 1998, consolidated revenue increased 12.3% to \$293.5 million from \$261.3 million in fiscal 1997. Revenue growth in the United States increased 8.9% or \$18.2 million. Revenue reported in the United States includes export sales primarily to Canada, Latin America, Korea, China, Southeast Asia, Middle East, Australia and New Zealand. Revenue growth related to export sales increased 47.2% or \$15.8 million year over year. Moderate revenue growth within the United States was impacted by market weakness and loss of fax market share. Despite global economic issues, revenues generated from Japan and Belgium (including all of Western Europe) increased 25.3% to \$69.3 million from \$55.3 million in the preceding year. The increase in international revenue was primarily due to a 37.3% growth to \$57.7 million in revenue from Belgium.

During 1998, Dialogic's worldwide revenue growth continued to be favorably impacted by increased sales of high-density products. During the year, the

Company continued to release commercial production of its new products based on DM3 architecture. DM3 products are now available in PCI, cPCI, and VME configurations utilizing industry standards such as H.323, G.723.1, G.711, GSM and T.38. Gross Profit: Consolidated gross profit percentage for 1998 was 63.0%

compared to 62.4% for the prior year. The increase in margins reflects the continued effects of the Company's cost reduction efforts across all product lines and the effect of cost savings related to a full year of turnkey manufacturing which was started in 1997.

Expenses: Selling, general, and administrative expenses decreased to 27.3% of revenue in fiscal 1998 as compared to 30.3% in the previous year, primarily reflecting a leveraging of expenses over a larger revenue base. The increase in expense dollars year over year is primarily attributable to additional sales commissions on a higher revenue base. Research and development expense increased \$13.8 million to 22.3% of revenue as compared to 19.7% of revenue in fiscal 1997. The Company continues to maintain a high level of R&D investment to meet the needs of its customers and to obtain new design wins. The Company continues to invest engineering resources in the development of the Dialogic DM3 Mediastream Resource Architecture ("DM3") as well as development of IP telephony and open switch hardware and software products.

Asset Impairment: During the first quarter of 1998, the Company undertook a strategic review of its business and product offerings. At the conclusion of this review, the Company determined it would no longer allocate resources to its Dianatel product line. Activities to sell and upgrade Dianatel products were discontinued and employees working on Dianatel related products were diverted to other activities. As a result of this decision, management has concluded that the carrying value of the goodwill that arose on the purchase of Dianatel Corporation was no longer justifiable, and the Company recorded a non-cash impairment charge of \$3.5 million related to the write-down of goodwill. The discontinuance of this product line will not have a significant effect on the revenues or earnings of the Company in future periods.

During the first quarter of 1998, the Company upgraded certain internal information technology systems. Accordingly, the Company took a \$1.8 million charge (\$1.3 million after-tax) to reduce the carrying value of the internal information technology assets that will no longer be utilized and therefore provide no future benefit to the Company.

Interest Income: The Company recorded \$3.1 million net interest income for the fiscal year ended December 31, 1998, compared to \$1.6 million in the previous fiscal year. Interest income in 1998 of \$1.7 million was generated from the Company's investments in tax-free securities as compared to \$1.8 million in 1997 from tax-free investments. In addition, the Company generated approximately \$1.6 million of interest income on short-term bank deposits. The increase primarily reflects the growth in the Company's short-term bank deposits due in part to the proceeds from the sale of assets of a subsidiary during the first quarter of 1998. The Company continues to invest a substantial amount of its available cash in tax-free securities.

Gain on Sale of Subsidiary: On February 17, 1998, the Company completed the sale of the principal assets and operations of Spectron Microsystems, Inc., a wholly owned subsidiary, to Texas Instruments Inc. for \$26.0 million, resulting in a pre-tax gain of \$23.4 million.

Taxes: The effective tax rate for fiscal 1998 was 39.6% as compared to 36.0% for fiscal 1997. The increase is attributable to the write-down of the non-tax deductible goodwill of Dianatel Corporation in the first quarter of 1998 in the amount of \$3.5 million, as well as the higher effective tax rate on the gain on sale of assets of a subsidiary.

Net Income: Net income for fiscal year 1998 was \$36.6 million or \$2.21 per diluted share as compared to \$21.8 million or \$1.31 per diluted share for the previous year. Net income for the current year included an after-tax gain of

\$14.0 million or \$0.84 per diluted share on the first quarter asset sale of a subsidiary and charges related to asset impairment of \$4.8 million after-tax or \$0.29 per diluted share for the write-down of certain assets.

Fiscal 1997 Compared to Fiscal 1996

Revenue: For the year ended December 31, 1997, consolidated revenue increased 22.3% to \$261.3 million from \$213.6 million in fiscal 1996. Revenue growth in the United States increased 20.1% or \$34.5 million. Revenue growth in the United States was impacted by longer than originally anticipated cycles for new product design wins. International revenues, primarily Belgium and Japan, increased 31.4% to \$55.3 million from \$42.1 million the preceding year. During 1997, Dialogic's worldwide revenue growth was favorably impacted by increased sales of high-density products. Sales from high-density products represented 55.6% of total 1997 revenue versus 48.7% of the total revenue in 1996.

Gross Profit: Consolidated gross profit percentage for 1997 was 62.4% compared to 60.3% for the prior year. The increase in margins reflects the continued effects of the Company's cost reduction efforts across all product lines. During 1997, the Company substantially completed its move of production to a selected

turnkey manufacturer resulting in further cost savings. In addition, margins were impacted by favorable product mix related to the increased volume of high-density products, offset partially by a one-time charge of \$600 thousand for the settlement of royalties related to a potential patent infringement.

Expenses: As a percentage of consolidated revenues, selling, general and administrative expenses increased to 30.3% in fiscal 1997 as compared to 28.1% in the previous year. The increase in selling, general and administrative expenses is attributable to the continuing growth of domestic and international sales and marketing efforts associated with new product launches and establishment of additional sales offices, costs associated with internal technology infrastructure and the costs associated with the hiring and relocation of executive staff members. Research and development expense increased \$10.9 million to 19.7% of revenue as compared to 19.0% of revenue in fiscal 1996. The increase reflects the Company's continued investment of engineering resources related to Dialogic's DM3 Architecture announced in the first quarter of 1997. The Company recognized amortization expense of goodwill associated with the acquisition of Dianatel Corporation of approximately \$1.0 million in fiscal 1997 as compared to \$386 thousand in the prior year.

Interest Income: The Company recorded \$1.6 million net interest income for the fiscal year ended December 31, 1997, compared to \$2.4 million in the previous fiscal year. Interest income in 1997 of \$1.8 million was primarily generated from the Company's investments in tax free securities as compared to \$2.5 million in 1996 from tax free investments and from the Company's election to convert accrued interest on the note of Voice Control Systems, ("VCS"). The Company continues to invest a majority of its available cash in tax-free securities.

Taxes: The effective tax rate for fiscal 1997 was 36.0%, compared to 35.7% for fiscal 1996.

Net Income: Net income for fiscal 1997 was \$21.8 million or \$1.31 per diluted share, compared to \$25.5 million or \$1.56 per diluted share for the previous year. Net income in fiscal 1996 included an after-tax gain on the sale of securities of VCS of \$5.8 million or \$0.35 per diluted share.

Inflation, Foreign Currency and Other Matters Inflation has not had a significant impact on the Company's operating results to date. Foreign currency transaction gains and losses are included within the Company's selling, general and administrative expenses. The majority of the Company's revenue and receivables are denominated in the US dollars. Based on the foreign currency exposure of nonfunctional currency denominated receivables and payables at December 31, 1998, a 10% adverse change in the currency rates would not materially affect the Company's financial position, results of operations or cash flows. While the amounts of such gains or losses have not been significant to the Company's results to date, as the Company continues to expand its international operations, exposure to gains and losses on international currency transactions may increase and may be material to quarterly and annual results. The consolidated financial statements of the Company reflect the translation of the functional currencies of its foreign subsidiaries under Statement of Financial Accounting Standards ("SFAS") No. 52.

Year 2000

The Year 2000 issue is primarily the result of computer programs or databases using a two-digit format, as opposed to four digits, to represent a calendar year. Some computer systems will be unable to correctly interpret dates beyond the year 1999, which could cause a system failure or other computer errors, leading to a disruption in the operation or accuracy of such systems. The Company has undertaken a company-wide study and testing program to locate and cure any Year 2000 issues in the products or systems on which it relies and in the products it offers for sale or license. The Company believes its internal systems, including both its financial operating (information technology) systems and non-information technology systems are Year 2000 compliant. The Company's financial operating systems have been upgraded to a Year 2000 compliant release within the context of its normal operating environment. Such upgrade was not accelerated in anticipation of Year 2000 issues. No material additional costs were incurred in upgrading the Company's internal systems. This phase of the Company's Year 2000 study is completed. The Company has been and anticipates continuing to work jointly with strategic vendors and business partners to identify any Year 2000 issues that may impact the Company. The Company anticipates that evaluation and corrective actions, if any, will be ongoing throughout 1999. To date, the Company has not identified any such problems requiring corrective action that will result in a material adverse impact on the Company. However, there can be no assurance that the companies with which the Company does business will achieve Year 2000 compliance in a timely fashion, or that such failure to comply by another company will not have a material adverse effect on the Company. The Company believes the products it currently offers for sale or license are all Year 2000 compliant, and that the cost to remediate any previously sold product that is not Year 2000 compliant will not be material.

The Company has and will incur internal staff costs related to the

above initiative. The Company maintains a web site and has responded to many inquiries from customers regarding Year 2000 compliance of its products. These costs are not considered to have a material impact on the Company's operating results and have not been quantified.

Based on the assessment effort to date, the Company does not believe that the Year 2000 issue will have a material adverse effect on its financial condition, results of operations, or cash flows. This represents a forward-looking statement under the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from the Company's belief and expectations, which are based on certain assumptions and expectations that ultimately may prove to be inaccurate. Potential sources of risk include (a) the inability of principal suppliers to be Year 2000 ready, which could result in delays in product deliveries from such suppliers; (b) disruption of the distribution channel, including transportation vendors; (c) customer problems which could affect revenue demand; (d) undiscovered issues related to Year 2000 compatibility which could have a material adverse impact. The Company's Year 2000 assessment is ongoing and the consideration of contingency plans will continue to be evaluated as new information becomes available. At this stage, however, the Company has not developed a comprehensive contingency plan to address situations that may result if any of the third parties upon which the Company is dependent is unable to achieve Year 2000 compliance. The need for such a contingency plan will be evaluated throughout 1999.

Liquidity and Capital Resources

As of December 31, 1998, the Company had working capital of \$140 million and a current ratio (i.e., the ratio of current assets to current liabilities) of 4.7 to 1, compared with working capital of \$120 million and a current ratio of 4.7 to 1 at December 31, 1997.

The Company's consolidated cash, cash equivalents and marketable securities increased by \$21.8 million during fiscal 1998. Cash provided from operations was \$27.8 million, while \$1.6 million was provided by investing activities and \$7.8 million used in financing activities.

The Company's investing activities in fiscal 1998 included expenditures of \$15.0 million for property and equipment, primarily associated with the expansion of the Company's headquarters and \$6.9 million for investments in companies Dialogic believes to be strategic partners. The Company received \$26.0 million from proceeds of the sale of assets of Spectron Microsystems in the first quarter of 1998.

Net cash used in financing activities was \$7.8 million. On November 6, 1997, the Board of Directors authorized a share repurchase program of up to 800,000 shares to be bought over three years. In 1998, the Company repurchased 350,000 shares of the Company's common stock pursuant to the repurchase plan, accounting for approximately \$9.9 million of such activities. To date, an aggregate 400,000 shares of treasury stock have been purchased for \$11.8 million cash. In addition, the Company realized proceeds from the exercise of stock options and issuance of common stock of \$2.8 million.

The Company has financed its operations primarily through cash flows from operations as well as from the net realized gain from its sale of VCS securities, and the net proceeds from the sale of assets of Spectron Microsystems Inc. Dialogic is a party to a credit facility pursuant to which the Company may borrow up to \$30 million on an unsecured basis for working capital purposes. See notes 2, 4 and 6 of the Notes to the Company's Consolidated Financial Statements.

The Company believes that the combination of its current liquidity, cash generated from operations and the credit available under its existing bank lines will be sufficient to meet its liquidity and capital requirements. This statement represents a forward-looking statement under the Private Securities Litigation Reform Act of 1995. The actual sufficiency of such capital resources could differ materially from the Company's expectations, depending primarily upon the extent to which unanticipated capital requirements may arise and the extent to which unanticipated events may have a materially adverse effect on the Company's profitability.

New Accounting Pronouncements

In June of 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments and requires recognition of all derivatives as assets or liabilities in the statement of financial position and measurement of these instruments at fair value. The statement is effective for fiscal years beginning after June 15, 1999. Management believes that adopting this statement will not have a material impact on the financial position, results of operations, or cash flows of the Company.

Risks and Uncertainties

Dialogic's business is subject to certain risks which are described in detail in Item 1 of the Dialogic Annual Report on Form 10-K for its year ended December 31, 1998. Such risks include, but are not limited to, product demand and market acceptance risks; the effect of worldwide economic conditions; the impact of competitive products and pricing; the Company's ability to enter new markets; the adoption of new standards and the Company's ability to meet those standards; product development problems; effects of competitive forces and pace of deregulation in the telecommunications industry; the status of intellectual property rights; commercialization and technological difficulties; capacity and supply constraints or difficulties; the impact of acquisitions or mergers of customers, competitors or suppliers; constraints on capital resources; general business conditions; and the effect of the Company's accounting policies. Such factors, as well as announcements of technological innovations or new products by Dialogic, its competitors or third-parties; consolidations or other substantial changes within or affecting the computer telephony industry; quarterly variations in the Company's results of operations; shortfalls in Dialogic's revenues, gross margins or earnings as compared with investment analysts' expectations, regulatory developments, capital market conditions; and general and economic conditions, may also cause substantial volatility in the market price of the Company's common stock. The Company continually reevaluates its operations and business structure and may, from time to time, take actions to restructure operations accordingly.

Independent Auditors' Report

To the Board of Directors and Shareholders of
Dialogic Corporation
Parsippany, New Jersey 07054

We have audited the accompanying consolidated balance sheets of Dialogic Corporation and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, statements of comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Dialogic Corporation and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP

Parsippany, New Jersey
January 27, 1999
(except for Note 10, as to which the date is March 2, 1999)

<TABLE>
<CAPTION>

Consolidated Balance Sheets

Assets

(Amounts in thousands, except share data)

December 31,	1998)	1997)
Current assets:		
<S>	<C>	<C>
Cash and cash equivalents	\$39,774)	\$18,764)
Marketable securities	44,594)	43,774)
Accounts receivable (net of allowance for doubtful accounts of \$1,871 and \$1,280, respectively)	55,094)	45,186)
Inventory:		
Raw materials	3,939)	8,827)

Work in process	5,073)	6,724)
Finished goods	12,835)	14,941)
Deferred income taxes	21,847)	30,492)
Other current assets	9,130)	7,190)
	7,295)	6,842)
Total current assets	177,734)	152,248)
Property and equipment:		
Leasehold improvements	6,872)	5,049)
Furniture and fixtures	8,959)	6,809)
Equipment	43,056)	35,084)
Less accumulated depreciation and amortization	58,887)	46,942)
	(31,483)	(24,327)
Other assets	27,404)	22,615)
	11,845)	7,541)
TOTAL ASSETS	\$216,983)	\$182,404)

</TABLE>

<TABLE>

Liabilities and Shareholders' Equity

(Amounts in thousands except share data)		
	1998	1997
December 31,		
Current liabilities:		
<S>	<C>	<C>
Accounts payable	\$13,746)	\$14,361)
Accrued salaries and benefits	8,683)	6,390)
Accrued royalties	1,289)	1,825)
Accrued expenses	9,211)	7,986)
Income taxes payable	5,088)	1,237)
Current maturities of long-term liabilities	158)	529)
Total current liabilities	38,175)	32,328)
Long-term liabilities	2,475)	2,481)
Deferred income taxes	656)	2,730)
Commitments and contingencies (Note 8))	-
Shareholders' Equity:		
Preferred stock, no par value, stated value \$0.01 - 10,000,000 shares authorized:		
none issued))
Common stock, no par value, stated value \$0.01 - 60,000,000 shares authorized:		
16,287,541 and 16,100,862 shares issued, respectively	217)	214)
Additional paid-in capital	56,575)	51,941)
Retained earnings	130,631)	94,023)
Accumulated other comprehensive income	755)	599)
Unearned compensation - restricted stock	(702)	-)
Treasury stock, at cost; 400,000 and 50,000 shares, respectively	(11,799)	(1,912)
Total shareholders' equity	175,677)	144,865)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$216,983)	\$182,404)

The accompanying notes are an integral part of the Consolidated Financial Statements.

</TABLE>

<TABLE>

Consolidated Statements of Income

(Amounts in thousands, except per share data)		
	1998	1997)
December 31,		1996
<S>	<C>	<C>
Revenues	\$293,525	\$261,310)
Cost of goods sold	108,567	98,329)
Gross profit	184,958	162,981)
		128,840

Research and development expense	65,350	51,530)	40,666
Selling, general and administrative expenses	80,228	79,098)	60,052
Asset impairment	5,297	-)	-
Operating income	34,083	32,353)	28,122
Interest income - net	3,099	1,637)	2,440
Net realized gains (losses) on available for sale securities	32	(4)	9,175
Gain on sale of subsidiary	23,384	-)	-
Income before provision for income taxes	60,598	33,986)	39,737
Provision for income taxes	23,990	12,234)	14,189
Net income	\$ 36,608	\$ 21,752)	\$ 25,548

Net income per share:			
Basic	\$ 2.29	\$ 1.37)	\$ 1.63
Diluted	\$ 2.21	\$ 1.31)	\$ 1.56

Weighted average number of common shares outstanding:			
Basic	16,010	15,931)	15,654
Diluted	16,558	16,598)	16,417

The accompanying notes are an integral part of the Consolidated Financial Statements.
</TABLE>

<TABLE>

Consolidated Statements of Comprehensive Income Dialogic Corporation and Subsidiaries

(Amounts in thousands)	1998)	1997)	1996)
Year ended December 31,			
<S>	<C>	<C>	<C>
Net income:	\$ 36,608)	\$ 21,752)	\$ 25,548)
Foreign currency translation adjustment:			
Foreign currency translation gains (losses)	598)	(400)	(359)
Net unrealized gains (losses) on investment securities:			
Net unrealized (losses) gains arising during the period (net of tax of \$237, \$2,540 and (\$2,392), respectively)	(421)	(4,631)	4,721
Reclassification adjustment for (gains) losses included in net income (net of tax of \$11, (\$2) and \$3,303, respectively)	(21)	2)	(5,872)
Net unrealized (losses) gains on investment securities	(442)	(4,629)	(1,151)
Total other comprehensive income (loss)	156	(5,029)	(1,510)
Comprehensive income	\$ 36,764)	\$ 16,723)	\$ 24,038)

The accompanying notes are an integral part of the Consolidated Financial Statements.
</TABLE>

<TABLE>
<CAPTION>

Consolidated Statements of Shareholders' Equity

(In thousands)	Number Common Stock	Shares Treasury Stock	Common Stock	Additional Paid-in Capital			Retained Earnings	Unearned Compensation	Restricted Stock	Treasury Stock	Accumulated Translation Gains/Losses	Cumulative Unrealized Gains/Losses	Share- holders' Equity
				<C>	<C>	<C>							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, January 1, 1996	15,492	-	\$206	\$38,690	\$46,723	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 373	\$ 6,765	\$ 92,757)
Exercise of stock options	180	-	3	1,201	-	-	-	-	-	-	-	-	1,204)
Issuance of common stock in connection with acquisitions	55	-	1	3,794	-	-	-	-	-	-	-	-	3,795
Currency translation loss	-	-	-	-	-	-	-	-	-	-	(359)	-	(359)

Net unrealized losses on available for sale securities	-	-	-	-	-	-	-	-	(1,151)	(1,151)
Issuance of common stock under employee stock purchase plan	47	-	-	1,368	-	-	-	-	-	1,368
Tax benefit from exercise of stock options	-	-	-	1,680	-	-	-	-	-	1,680
Net income	-	-	-	-	25,548	-	-	-	-	25,548
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Balance, December 31, 1996	15,774	-	210	46,733	72,271	-	-	14	5,614)	124,842
Purchases of treasury stock	-	(50)	-	-	-	-	(1,912)	-	-	(1,912)
Exercise of stock options	234	-	3	1,431	-	-	-	-	-	1,434
Issuance of common stock as directors' fees	3	-	-	85	-	-	-	-	-	85
Currency translation loss	-	-	-	-	-	-	(400)	-	-	(400)
Net unrealized losses on available for sale securities, net of tax	-	-	-	-	-	-	-	-	(4,629)	(4,629)
Issuance of common stock under employee stock purchase plan	90	-	1	1,716	-	-	-	-	-	1,717
Tax benefit from exercise of stock options	-	-	-	1,976	-	-	-	-	-	1,976
Net income	-	-	-	-	21,752	-	-	-	-	21,752
-----	-----	-----	-----	-----	-----	-----	-----	985	144,865	-----
Balance, December 31, 1997	16,101	(50)	214	51,941	94,023	-	(1,912)	(386)	985	144,865
Purchases of treasury stock	-	(350)	-	-	-	-	(9,887)	-	-	(9,887)
Exercise of stock options	122	-	2	869	-	-	-	-	-	871
Issuance of common stock as directors' fees	2	-	-	86	-	-	-	-	-	86
Net unearned compensation restricted stock	-	-	-	933	-	(702)	-	-	-	231
Currency translation gain	-	-	-	-	-	-	-	598	-	598
Net unrealized losses on available for sale securities, net of tax	-	-	-	-	-	-	-	-	(442)	(442)
Issuance of common stock under employee stock purchase plan	62	-	1	1,816	-	-	-	-	-	1,817)
Tax benefit from exercise of stock options	-	-	-	930	-	-	-	-	-	930
Net income	-	-	-	-	36,608	-	-	-	-	36,608
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Balance, December 31, 1998	16,287	(400)	\$217	\$56,575	\$130,631	(\$702)	(\$11,799)	\$212	\$543	\$175,677
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----

The accompanying notes are an integral part of the Consolidated Financial Statements.

</TABLE>

Consolidated Statements of Cash Flows

Year ended December 31,	1998	1997	1996
Cash flows from operating activities:			
<S> Net income	<C> \$ 36,608)	<C> \$ 21,752)	<C> \$ 25,548)
Adjustments for non-cash items included in net income:			
Depreciation and amortization	8,634)	9,496)	6,103)
Asset impairment	5,297)	-)	-)
Deferred income taxes	(3,310)	(2,642)	(587)
Non-cash interest income	-)	-)	(1,069)
Net realized (gain) loss on available for sale securities	(32)	4)	(9,175)
Gain on sale of subsidiary	(23,384)	-)	-)
Other	675)	909)	2,493)
Changes in operating assets and liabilities	3,331)	1,496)	(15,504)
Net cash flows provided by operating activities	27,819)	31,015)	7,809)
Investing Activities:			
Capital expenditures	(15,233)	(10,712)	(10,722)
Purchase of available for sale securities	(18,442)	(25,656)	(45,937)
Purchase of investments (cost method)	(6,875)	-)	-)
Proceeds from sales of available for sale securities	16,270)	12,187)	44,044)

Proceeds from sales of other investments	-)	10,100)
Proceeds from sale of subsidiary, net of cash disposed	-)	-)
Other	-)	(820)
 Net cash flows provided by (used in) investing activities	 1,589)	 (24,181)
 Financing Activities:	 	
Proceeds from short-term borrowings	-)	12,625)
Repayments on short-term borrowings	-)	(12,625)
Exercise of stock options	871)	1,434)
Purchase of treasury stock	(9,887)	(1,912)
Issuance of common stock	1,817)	1,717)
Other	(646)	(757)
 Net cash flows provided by (used in) financing activities	 (7,845)	 482)
 Increase in cash and cash equivalents	 21,563)	 7,316)
Effect of exchange rate on cash	 (553)	 (400)
Cash and cash equivalents, beginning of year	 18,764)	 11,848)
 Cash and cash equivalents, end of year	 \$ 39,774)	 \$ 18,764)
 Change in operating assets and liability components:	 	
(Increase) in accounts receivable	\$ (10,238)	\$ (10,480)
(Increase) decrease in inventory	9,008)	(2,731)
(Increase) in other current assets	(425)	(1,680)
Increase (decrease) in accounts payable	(492)	7,318)
Increase in accrued expenses	5,478)	9,069)
 Change in operating assets and liabilities	 3,331)	 \$ 1,496)
 Supplemental disclosures of cash flow information:	 	
Cash paid during the year for:		
Interest	\$ 165)	\$ 108)
Income taxes	18,898)	14,379)
 Supplemental disclosures of non-cash investing and financing activities:	 	
Tax benefit from exercise of stock options	930)	1,979)
Stock and options issued for acquisition of business	-)	-)
Issuance of restricted common stock	933)	-)

The accompanying notes are an integral part of the Consolidated Financial Statements.
</TABLE>

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Nature of Business - Dialogic designs, manufactures and markets hardware and software enabling technologies for "computer telephony" systems. "Computer telephony" (CT) is a term used to encompass a wide variety of technologies and applications that use the information processing capabilities of a computer (often a server) to add intelligence to telephone functions and to combine these functions with data processing. Dialogic products are used in voice, fax, data, voice recognition, speech synthesis and call center management CT applications. Dialogic products are sold globally to original equipment manufacturers, value-added resellers and service providers through both a direct sales force and distributors. The Company is headquartered in Parsippany, New Jersey, with regional headquarters in Tokyo, Japan; Brussels, Belgium; and Buenos Aires, Argentina.

Principles of Consolidation - The consolidated financial statements include the accounts of Dialogic Corporation and its subsidiaries (collectively, the "Company"). Intercompany accounts and transactions have been eliminated.

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

Reclassifications - Certain reclassifications were made to the 1996 and 1997 consolidated financial statements to conform to the 1998 presentation.

Revenue Recognition - The Company recognizes revenues when products are shipped. Revenue from maintenance and support contracts is deferred and recognized ratably over the service period.

Inventory - Inventory is stated at the lower of cost (first-in, first-out method) or market.

Property and Equipment - Property and equipment are carried at cost and include expenditures for major improvements which substantially increase their useful life. Repairs and maintenance are expensed as incurred. Depreciation of equipment, software and fixtures is computed on the straight-line method over estimated useful lives of one to seven years. Equipment under capital lease and leasehold improvements are amortized over the shorter of lease terms or estimated useful life.

Long-lived Assets - Whenever events indicate that the carrying values of long-lived assets may not be recoverable, the Company evaluates the carrying values of such assets using future undiscounted cash flows. If the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset, the Company will recognize an impairment loss equal to the difference

between the fair value and carrying value of such asset. During 1998, the Company recorded an impairment loss (see note 3). Management believes that, as of December 31, 1998, the carrying value of long-lived assets is appropriate.

Fair Value of Financial Instruments - The estimated fair value of the Company's financial instruments, which include cash and cash equivalents, accounts receivable and accounts payable approximates their carrying value. Marketable securities are carried at fair value at each balance sheet date.

Foreign Currency Translation - The functional currency of the Company's foreign operations is the applicable local currency. The translation from the applicable foreign currencies to U.S. dollars is performed for balance sheet accounts using the exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted average exchange rate during the period. The gains and losses resulting from such translations are included in shareholders' equity. Gains or losses resulting from foreign currency transactions are included in the Statement of Operations, and include gains (losses) of \$126 thousand, (\$750) thousand and (\$324) thousand in 1998, 1997 and 1996, respectively.

Income Taxes - The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax bases of existing assets and liabilities. These assets and liabilities are measured using currently enacted rates. Deferred income tax assets are recognized to the extent realization of such benefits is more likely than not.

Research and Development Expenses - Research and development is charged to expense in the year incurred.

Software Development Expenses - The development of new software products and substantial enhancements to existing software products is expensed as incurred until technological feasibility has been established, at which time any additional costs would be capitalized in accordance with Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed." Because the Company believes its current process for developing software is essentially completed concurrently with the establishment of technological feasibility, no costs have been capitalized to date.

Cash Equivalents and Marketable Securities - Cash equivalents include certificates of deposit, government securities and time deposits, with maturities of three months or less at the time of purchase. Marketable securities are comprised of investments in municipal bonds as well as Voice Control Systems, Inc. ("VCS") common stock.

The Company classifies these marketable securities as available-for-sale securities in accordance with the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Unrealized gains and losses for these securities are excluded from earnings and reported net of tax as a separate component of stockholders' equity. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the consolidated statements of income. Fair values are determined by reference to market prices for securities as quoted based on publicly traded exchanges or as determined by a municipal bond pricing service which utilizes current trade, bids, offers and other specific data at the valuation date.

Other Assets - Other assets include amounts associated with long-term royalties, license fees, deposits, and investments in certain companies operating in the

computer telephony industry. As the investments in these companies are not readily marketable and represent less than 20% voting interest, the investments

are carried at cost and periodically assessed for potential impairment in value. The investment balances totaled \$6.9 million at December 31, 1998. Additionally, at December 31, 1997, other assets included \$3.5 million (net of accumulated amortization of \$1.5 million) of goodwill. See note 3.

Concentration of Risk - Financial instruments which potentially subject the Company to concentration of credit risk consist principally of accounts receivable from customers in the computer telephony industry. This risk is mitigated by the large number of customers in the Company's customer base and the Company's procedures for extending credit and collection of receivables. Additionally, the Company has subcontracted one supplier to manufacture the majority of the Company's product. The Company believes that other suppliers have the capability to perform this service but that changing suppliers may cause delays and additional cost to the Company.

Income Per Share - The Company computes income per share in accordance with the provisions of SFAS No. 128, "Earnings per Share." SFAS No. 128 requires the dual presentation of basic and diluted earnings per share ("EPS"). Basic EPS excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if stock options or other contracts to issue common stock were exercised and resulted in the issuance of common stock that then shared in the earnings of the Company. Diluted EPS is computed using the treasury stock method when the effect of common stock equivalents would be dilutive. All prior periods have been restated to comply with the provisions of SFAS No. 128. The dilutive effect of stock options on weighted average shares outstanding was 548 thousand, 667 thousand and 763 thousand for 1998, 1997 and 1996, respectively.

Comprehensive Income - In 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income," and has restated prior years' financial statements to conform to the reporting standard. SFAS No. 130 establishes standards for reporting and displaying comprehensive income and its components in a full set of general-purpose financial statements. Comprehensive income includes all changes in stockholders' equity during a period except those resulting from investments by owners and distributions to owners. The adoption of SFAS No. 130 resulted in revised and additional disclosures but had no effect on the financial position, results of operations or cash flows of the Company.

Segment Reporting - In 1998, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 specifies the presentation and disclosure of operating segment information reported in the annual and interim reports issued to stockholders. SFAS No. 131 supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise," and requires that segment information of earlier years be restated to conform to the new standard. The adoption of SFAS No. 131 resulted in revised and additional disclosures but had no effect on the financial position, results of operations, or cash flows of the Company.

Accounting Pronouncements - In June of 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments and requires recognition of all derivatives as assets or liabilities in the statement of position and measurement of these instruments at fair value. The statement is effective for fiscal years beginning after June 15, 1999. Management believes that adopting this statement will not have a material impact on the financial position, results of operations, or cash flows of the Company.

2. Divestment

On February 17, 1998, the Company completed the sale of the principal assets of Spectron Microsystems Inc., a wholly owned subsidiary, to Texas Instruments for \$26.0 million, resulting in a pre-tax gain of \$23.4 million. The disposition of these assets will not have a significant effect on the revenues or earnings of the Company in future periods.

3. Asset Impairment

During the first quarter of 1998, the Company undertook a strategic review of its business and product offerings. At the conclusion of this review, the Company determined it would no longer allocate resources to its Dianatel product line. Activities to sell and upgrade Dianatel products were ceased and employees working on Dianatel related products were diverted to other activities. As the result of this decision, management has concluded that the carrying value of the goodwill that arose on the purchase of Dianatel Corporation was no longer justifiable, and the Company recorded a non-cash impairment charge of \$3.5 million related to the write-down of goodwill. The discontinuance of this product line will not have a significant effect on the revenues or earnings of the Company in future periods.

During the first quarter of 1998, the Company upgraded certain

internal information technology systems. Accordingly, the Company took a \$1.8 million charge (\$1.3 million after-tax) to reduce the carrying value of the internal information technology assets that will no longer be utilized and therefore provide no future benefit to the Company.

Management believes the recognition of these impairments were in accordance with the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of."

4. Available For Sale Securities

The following is a summary of the available for sale securities as of December 31, 1998 and 1997:

<TABLE>

Amounts in thousands

1998	Cost	Gross	Gross	Estimated Fair Value
		Unrealized Gains	Unrealized Losses	
<S>	<C>	<C>	<C>	<C>
Municipal bonds	\$41,898	\$ 246	\$ -	\$42,144
Equity investment	1,954	496	-	2,450
Total available for sale securities	\$43,852	\$ 742	\$ -	\$44,594

1997				
Municipal bonds	\$39,863	\$ 149	\$ -	\$40,012
Equity investment	1,954	1,808	-	3,762
Total available for sale securities	\$41,817	\$1,957	\$ -	\$43,774

</TABLE>

The cost and estimated fair value of debt securities at December 31, 1998, by contractual maturity, are as follows:

<TABLE>
<CAPTION>

Amounts in thousands

<S>	Cost	Estimated
		Fair Value
1999	\$10,013	\$10,044
2000	21,513	21,706
2001	10,372	10,394

The net realized gains on sales of debt securities totaled approximately \$32 in 1998, and the gross realized losses totaled approximately \$4 in 1997.

</TABLE>

The Company's equity investment is in shares of VCS common stock. The fair values of the Company's investments in VCS have been determined by reference to the market prices for VCS stock as quoted on publicly traded exchanges on the respective valuation dates. At December 31, 1998 and 1997, the Company held 1,399,715 shares of VCS common stock.

VCS is a supplier to the Company of certain proprietary voice recognition technologies. During 1998, 1997 and 1996, the Company's purchases from VCS amounted to \$3,305,000, \$3,075,000 and \$2,953,000, respectively.

5. Employee Benefit Plans

Profit Sharing Plan - The Company has a quarterly profit sharing program in which all employees participate, except certain members of senior management. If certain profit thresholds are met in a quarter, a pool is created based upon the

achievement of targeted profit goals. Payments are made to employees on a quarterly basis. For the years ended December 31, 1998, 1997 and 1996, the Company recorded expenses under the program of \$1.8 million, \$1.5 million, and \$978 thousand, respectively.

Savings Plan - The Company has a savings plan, which qualifies under Section 401(k) of the Internal Revenue Code. Under the plan, participating U.S. employees may defer up to 15% of their pre-tax salary, but no more than statutory limits. The Company contributes a discretionary match, currently set at forty-two cents for each dollar contributed by a participant up to 5% of that participant's salary, with a maximum contribution of \$3,360 per participant. The Company's matching contributions to the savings plan were \$858 thousand, \$725 thousand and \$458 thousand in 1998, 1997 and 1996, respectively.

Stock Compensation Plans - At December 31, 1998, the Company had certain stock-based compensation plans which are described below. The Company applies APB Opinion No. 25 and related Interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for either type of plan. Had compensation cost been determined in accordance with the method of SFAS No. 123, "Accounting for Stock-Based Compensation," based on the fair value at the grant date for awards during 1998, 1997 and 1996, under those plans, the Company's net income and income per share would have been reduced to the pro forma amounts indicated below:

Amounts in thousands, except per share amounts			
	1998	1997	1996
Net income:			
<S>	<C>	<C>	<C>
As reported	\$ 36,608	\$ 21,752	\$ 25,548
Pro forma	\$ 31,527	\$ 19,126	\$ 22,340
Income per share:			
As reported:			
Basic	\$ 2.29	\$ 1.37	\$ 1.63
Diluted	\$ 2.21	\$ 1.31	\$ 1.56
Pro forma:			
Basic	\$ 1.97	\$ 1.20	\$ 1.43
Diluted	\$ 1.90	\$ 1.15	\$ 1.36

</TABLE>

The effects of applying SFAS No. 123 for providing pro forma disclosures are not likely to be representative of the effects on reported net income for the future years because options vest over several years and additional awards generally are made each year. The fair value of the 29,874 stock options issued in connection with the 1996 acquisition of Dianatel is included in the Dianatel purchase price and therefore does not affect the pro forma amounts indicated above.

Stock Option Plans - The Company has stock option plans for directors, officers and other employees which provides for non-qualified and incentive stock options. At December 31, 1998, 1,168,994 shares were available for future grants under the plans. All options have been granted at exercise prices at or above fair market value at the date of grant and vest over periods of up to seven years. All options have a maximum term of ten years.

On October 25, 1998, the Company authorized the grant of new stock options to certain employees who agreed to cancel stock options which had been granted to them during 1997 and 1998. The options were reissued effective

October 25, 1998 at \$19.1875 per share, the fair market value on the date of the grant. All employees were eligible to participate in the reissue program with the exception of Executive officers and highly compensated senior management, and 829,225 stock options were issued under this grant. The reissued options will vest over a four-year period beginning October 25, 1998. The options will expire on October 25, 2006.

For the purposes of the pro forma amounts indicated above and other disclosures, the fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following

assumptions:

Year of grant	1998%	1997%	1996%
<S>	<C>	<C>	<C>
Volatility	58%	79%	75%
Weighted average risk free interest rate	6.0%	6.5%	6.3%
Expected life (yrs)	5	5	6

No dividends are assumed to be paid during the expected life of any option.

</TABLE>

A summary of the status of the Company's stock option plans as of December 31, 1998, 1997 and 1996, and changes during the years ended on those dates is presented below:

<TABLE>
<CAPTION>

	1998		1997		1996	
	Shares (000)	Weighted-Average Exercise Price	Shares (000)	Weighted-Average Exercise Price	Shares (000)	Weighted-Average Exercise Price
Options outstanding						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
at beginning of year	2,629)	\$ 21.56)	2,269)	\$ 16.00)	1,962)	\$ 12.00
Granted	1,856)	26.96)	711)	34.36)	626)	31.00
Exercised	(122)	7.08)	(235)	6.12)	(173)	5.00
Forfeited/canceled	(1,184)	33.20)	(116)	27.80)	(146)	29.00
Options outstanding						
at end of year	3,179)	\$ 20.97)	2,629)	\$ 21.56)	2,269)	\$ 16.00
Options exercisable at year end						
	1,119)		925)		855)	
Weighted average fair value of options granted during the year						
		\$15.07		\$23.83		\$23.00

</TABLE>

The following table summarizes information about stock options outstanding at December 31, 1998:

<TABLE>
<CAPTION>

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted-Average		Number Exercisable at 12/31/98 (000)	Weighted-Average	
		Remaining life (yrs)	Contractual life (yrs)		Exercise Price	Exercise Price
\$ 1.60 to \$ 4.93	<C>	<C>	<C>	<C>	<C>	<C>
5.73 to 9.33	271	2.7	\$ 3.81	257	\$ 3.81	
	307	4.7	7.33	265		7.44
10.67 to 18.88	321	5.4	15.09	242		14.76
19.00 to 28.75	1,692	7.5	21.86	267		24.29
30.00 to 55.75	588	7.4	36.67	88		37.41

</TABLE>

Restricted Stock Awards - In 1998, the Company made restricted stock awards totaling 29 thousand shares. The fair value of these awards is \$934 thousand and the awards vest between six months and five years from date of grant. The unearned compensation has been recorded as a contra account within stockholders' equity and is amortized to compensation expense over the vesting period. The weighted average fair value of restricted stock awards during 1998 was \$32.05.

Employee Stock Purchase Plan - On April 28, 1995, the Company's stockholders approved the establishment of the Employee Stock Purchase Plan (the "ESPP").

Under the ESPP, employees meeting certain eligibility requirements may elect to contribute up to ten percent of their compensation to purchase the Company's common stock at a purchase price equal to 85% of the fair market value of the stock at the beginning or end of each offering period, whichever is lower. Persons holding more than 5% of common stock in the Company are not eligible to participate in the ESPP. Under the ESPP, the Company reserved for issuance a total of 300,000 shares. (See Note 10 of the Company's Notes to the Consolidated Financial Statements). Approximately 40% of eligible employees have participated in the ESPP during the last three years. Under the ESPP, the employees purchased or committed to purchase 80,205, 86,603 and 49,674 shares in 1998, 1997 and 1996, respectively. For the purpose of the pro forma amounts indicated above, compensation cost was based on the fair value of the employee's purchase rights on the date of grant which was estimated using the Black-Scholes model and the assumptions noted above, with the exception of expected option life, which was assumed to be .25 years. The fair value of those purchase rights granted in 1998, 1997 and 1996 was \$454 thousand, \$508 thousand and \$588 thousand, respectively.

6. Credit Facilities

The Company maintains a credit facility with a lender, pursuant to which the Company may borrow up to \$30 million on an unsecured basis for working capital purposes. Loans made under this agreement bear interest, at the option of the Company, primarily at the rate equal to the lenders' base rate less three-quarter percent or LIBOR. Future borrowing under this facility will be due and payable on June 1, 1999. At December 31, 1998 and 1997, no borrowings were outstanding pursuant to this facility. Under this facility, \$3 million has been reserved for letters of credit, of which none has been utilized at December 31, 1998.

7. Provision for Income Taxes

Components of the provision for income taxes are as follows:

Amounts in thousands	1998	1997	1996
Provision for income taxes:			
<S>	<C>	<C>	<C>
Federal	\$18,549)	\$7,848)	\$11,744)
Foreign	2,609)	2,273)	868)
State	2,832)	2,113)	1,577)
Total	23,990)	\$12,234)	\$14,189)
Components of income tax provision:			
Current			
Federal	\$21,750)	\$10,447)	\$12,343)
Foreign	2,609)	2,259)	824)
State	2,941)	2,170)	1,616)
Total current	27,300)	14,876)	14,783)
Deferred			
Federal	(3,201)	(2,599)	(599)
Foreign	-)	14)	44)
State	(109)	(57)	(39)
Total deferred	(3,310)	(2,642)	(594)
Total	\$23,990)	\$12,234)	\$14,189)

</TABLE>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts calculated for income tax purposes.

The principal components of the deferred tax assets and deferred tax liabilities are as follows:

Amounts in thousands	1998	1997
Amounts in thousands		

	<C>	<C>
<S>	\$ 7,636)	\$ 5,548)
Reserves	4,880)	2,271)
Foreign tax credit carryforward	723)	746)
Deferred revenue and deferred rent	1,711)	1,066)
Other		
	-----	-----
	14,950)	9,631)
Deferred tax liabilities:		
Unrealized gains on available for sale securities	(268)	(973)
Undistributed earnings of foreign subsidiaries	(5,780)	(3,332)
Depreciation	(219)	(695)
Other	(209)	(171)
	-----	-----
	(6,476)	(5,171)
Net deferred tax assets	-----	-----
	\$ 8,474)	\$ 4,460)
	=====	=====

Reconciliations between the U.S. federal statutory rate and the effective tax rate are as follows:

December 31,	1998)	1997)	1996)
Federal taxes at statutory rate	35.0%)	35.0%)	35.0%)
State taxes, net of federal income tax benefit	4.5%)	4.7%)	2.6%)
Foreign income subject to a rate different from U.S. rate	0.9%)	1.4%)	0.5%)
Research and development tax credit	(1.8)%	(4.0)%	(1.8)%
Foreign sales corporation benefit	(1.8)%	(2.6)%	(0.8)%
Tax exempt income	(1.0)%	(1.4)%	(0.6)%
Non-deductible amortization	2.0%)	1.0%)	0.3%)
Other	1.8%)	1.9%)	0.5%)
Total effective tax rate	-----	39.6%)	36.0%)
	=====	=====	=====

</TABLE>

The Company has provided for U.S. federal income taxes on the undistributed earnings of its non-U.S. subsidiaries. The Company has a net operating loss carryforward of approximately \$600 thousand in Japan, expiring in the year 2002.

8. Commitments and Contingencies

(a) Lease Commitments - Equipment with a net book value of \$86 thousand and \$202 thousand at December 31, 1998 and 1997, respectively (net of accumulated depreciation of \$71 thousand and \$681 thousand), is leased under capital leases.

The Company leases certain office/warehouse space and equipment under operating leases which expire at various times through 2005. Total rent expense under operating leases amounted to approximately \$8.0 million, \$6.8 million and \$5.8 million for the years ended December 31, 1998, 1997 and 1996, respectively. At December 31, 1998, future minimum lease payments are as follows:

Amounts in thousands	Operating Leases	Capital Leases
Year ending December 31,		
1999	\$ 8,370	\$ 40
2000	7,892	40
2001	6,844	20
2002	6,434	-
2003	5,902	-
Thereafter	8,141	-
Total	43,583	100
Amounts representing interest		(14)
Present value of minimum lease payments		86
Current portion		33

(b) Legal Proceedings - In June 1995, the Company entered into a settlement agreement that resulted in the dismissal of various legal proceedings involving, among others, the Company and Brooktrout Technology, Inc. ("Brooktrout"). In November 1995, Brooktrout filed a complaint in the United States District Court for the District of Massachusetts naming the Company, its GammaLink subsidiary (since merged into the Company) and its Chairman of the Board as defendants. The

complaint sought to rescind the settlement agreement and obtain unspecified compensatory and punitive damages on the basis of allegations that the defendants fraudulently induced Brooktrout to enter into the settlement agreement. Dialogic denied the claims as baseless, moved to dismiss and filed a counterclaim. In December 1996, the District Court entered an order of summary judgment against Brooktrout dismissing its fraud claims. Subsequently, Brooktrout amended its complaint to add a claim for breach of the implied duty of good faith and fair dealing. On February 9, 1999, the parties reached a settlement in this litigation in which Brooktrout dismissed all remaining claims against Dialogic and its chairman with prejudice, Brooktrout granted certain additional patent rights to Dialogic, and Dialogic dismissed its counterclaim against Brooktrout with prejudice. Neither Dialogic nor its chairman made any payment to Brooktrout in this matter.

Separately, the Company's Spectron subsidiary had sued Brooktrout for patent infringement. This case was transferred to the District of Massachusetts. Dialogic believes it has retained the rights to maintain this lawsuit despite the February 1998 sale of the Spectron assets. Brooktrout has moved to dismiss this case claiming that Dialogic no longer has standing to enforce the patents. Trial in this case is now scheduled for June 14, 1999.

During the third quarter of 1996, a complaint was filed in New Jersey Superior Court against the Company and certain of its directors alleging that the defendants breached principles of common law fraud in connection with certain public statements made prior to the Company's July 8, 1996 press release announcing preliminary results for the quarter ended June 30, 1996. The complaint sought monetary damages on behalf of a purported class of purchasers of the Company's Common Stock. On February 18, 1998, on motion by the defendants, the complaint was dismissed by the court with prejudice. Time to appeal the dismissal has expired.

The Company is also engaged in other legal proceedings arising in the ordinary course of business, the results of which proceedings are not expected to have a material adverse effect on the Company's consolidated financial condition, results of operations or liquidity. Management intends to defend each of the above-mentioned legal proceedings vigorously.

9. Segments and Geographic Information

In 1998, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 specifies the presentation and disclosure of operating segment information. The Company operates and manages its business under one segment, "Computer Telephony." "Computer Telephony" is the term used to encompass a wide variety of technologies and applications that use the information processing capabilities of a computer (often a server) to add intelligence to telephone functions and to combine those functions with data processing. Management has reached the conclusion that the Company operates as one segment after considering a variety of factors including the nature of products sold, production process, its customer base, and distribution methods and determining that they are similar entity wide. The Company primarily derives its revenue from the sale of telephony boards that are offered as modular building blocks that enable its customers - primarily VARs, OEMs, systems integrators, service providers and applications developers - to design computer telephony systems that meet the applications demands of their end-user customers. No one customer accounts for more than 5% of total revenue.

Information about the Company's operations in different geographic areas at December 31, 1998, 1997 and 1996, and the years then ended is presented below:

<TABLE>
<CAPTION>

Amounts in thousands

1998	United States	Japan	Belgium	Other	Consolidated
<S>	<C>	<C>	<C>	<C>	<C>
Revenue, external	\$224,220	\$ 11,561)	\$ 57,744	-	\$ 293,525
Long-lived assets	\$ 24,741	\$ 268	\$ 1,512	\$ 883	\$ 27,404
Total assets	\$189,014	\$ 6,389)	\$ 19,156	\$ 2,424	\$ 216,983
Net income	\$ 33,588	\$ 48	\$ 2,972	\$ -	\$ 36,608
1997	United States	Japan	Belgium	Other	Consolidated
Revenue, external	\$205,975	\$ 13,271)	\$ 42,064	-	\$261,310

Long-lived assets	\$ 24,409	\$ 219	\$ 929	\$ 501	\$ 26,058
Total assets	\$160,302	\$ 4,977)	\$ 15,285	\$ 1,840	\$182,404
Net income	\$ 19,847	\$ (828)	\$ 2,733	\$ -	\$ 21,752

1996	United States	Japan	Belgium	Other	Consolidated
Revenue, external	\$171,517	\$ 12,282)	\$ 29,805	-	\$213,604
Long-lived assets	\$ 23,281	\$ 265	\$ 965	\$ 331	\$ 24,842
Total assets	\$129,516	\$ 5,078)	\$ 11,286	\$ 1,390	\$147,270
Net income	\$ 24,495	\$ 232	\$ 821	\$ -	\$ 25,548

</TABLE>

Revenue reported from the United States includes export sales primarily to Canada, Latin America, Korea, China, Southeast Asia, Middle East,

Australia, and New Zealand. Revenue attributed to Belgium primarily includes sales from the Company's Belgian subsidiary to customers in all of Western Europe. Revenues attributed to Japan include sales from the Company's Japanese subsidiary to customers in Japan. The above-mentioned revenues for the United States included export sales to customers aggregating \$49.3 million, \$33.5 million and \$20.2 million for fiscal years ended December 31, 1998, 1997 and 1996, respectively.

10. Subsequent Events

Legal:

On February 9, 1999, the Company entered into a settlement agreement that resulted in the dismissal of various legal proceedings involving, among others, the Company and Brooktrout Technology, Inc. ("Brooktrout"). The parties reached a settlement in their litigation in which all parties dismissed their claims with prejudice, and Dialogic received a "pass through" license to certain Brooktrout patents. Neither Dialogic nor its Chairman made any payments to Brooktrout in this matter. Separately, the Company's Spectron subsidiary had sued Brooktrout for patent infringement. This case was transferred to the District of Massachusetts. Dialogic believes it has retained the rights to maintain this lawsuit despite the February 1998 sale of the Spectron assets. Brooktrout has moved to dismiss this case, claiming that Dialogic no longer has standing to enforce the patents. Trial in this case is now scheduled for June 14, 1999.

Authorized Shares:

On February 22, 1999, the Board of Directors voted to seek shareholder approval to increase the number of authorized shares to 500 thousand for the Employee Stock Purchase Plan.

Strategic Partnership:

On March 2, 1999, Dialogic and Microsoft Corporation announced that they have entered into a strategic alliance relating to Dialogic's CT server initiative and Dialogic's CT Media for Windows NT middleware product. Under the terms of a license and development agreement, Microsoft will become a nonexclusive licensee of Dialogic's CT Media for Windows NT middleware product. Dialogic will enter into development activities to create specific applications in the telephony space which will be owned by Microsoft and will provide other support and development services. Under the license and development agreement, Microsoft payments to Dialogic over the next four years are expected to be \$20 million for the initial licenses for CT Media for Windows NT, the development services, and certain support. Microsoft's license to CT Media is subject to certain contractual limitations, and Dialogic will continue to own and remains free to license CT Media.

In a separate transaction, also occurring March 2, 1999, Microsoft agreed, for an aggregate purchase price of \$24.2 million, to acquire 860,681 newly issued shares of Dialogic common stock and a warrant entitling Microsoft to purchase 279,869 shares of Dialogic common stock. The warrant has a term of four years and is exercisable at a price of \$35.19 per share. Both the issued shares and the shares resulting from the exercise of the warrant are subject to a lockup period beginning on the transaction date. During the first year of the lockup period, Microsoft may sell none of the shares, and may only sell 50% of the shares in the second year of the lockup period. Thereafter, all shares may be freely sold. On March 2, 1999, Dialogic issued the shares and warrant to Microsoft.

Supplementary Financial Information

<TABLE>
<CAPTION>

Selected Quarterly Financial Information (Unaudited)

Amounts in thousands, except per share data	Quarter ended:	March 31, (June 30,	Sept 30,	Dec 31,
		1998			
<S>		<C>	<C>	<C>	<C>
Total revenues		\$66,388(1)	\$73,131	\$76,121	\$77,885
Gross profit		41,731(1)	46,358	47,165	49,704
Net income		15,573(1)	7,034	6,956	7,045
Income per share:					
Basic		\$.97(1)	\$.44	\$.43	\$.44
Diluted		\$.93(1)	\$.42	\$.43	\$.43
		1997			
	Quarter ended:	March 31, (June 30,	Sept 30,	Dec 31,
Total revenues		\$57,089(1)	\$63,196	\$68,760	\$72,265
Gross profit		35,320(1)	39,826	42,878	44,957
Net income		3,227(1)	4,778	6,352	7,395
Income per share:					
Basic		\$.20(1)	\$.30	\$.40	\$.46
Diluted		\$.20(1)	\$.29	\$.38	\$.44

</TABLE>

(1) Includes after-tax gain on sale of Spectron assets of \$14.0 million (\$0.84 per diluted share) and an after-tax impairment charge of \$4.8 million (\$0.29 per diluted share).

<TABLE>

Market Price and Dividend Data

<S>	<C>	<C>	High	Low
Quarter ended March 31, 1997		<C>	36.75	19.38
Quarter ended June 30, 1997		<C>	29.25	16.06
Quarter ended September 30, 1997		<C>	43.00	26.87
Quarter ended December 31, 1997		<C>	49.87	36.25
Quarter ended March 31, 1998		<C>	47.00	31.75
Quarter ended June 30, 1998		<C>	44.38	26.25
Quarter ended September 30, 1998		<C>	37.69	26.25
Quarter ended December 31, 1998		<C>	26.75	17.88

</TABLE>

As of January 31, 1999, there were approximately 203 holders of record of the Company's Common Stock. Since its IPO, the Company has not paid any cash dividends on its capital stock. The Company's current policy is to retain earnings for its use in the business. Accordingly, the Company does not anticipate paying cash dividends in the future. Any payment of cash dividends in the future will depend upon the financial condition, capital requirements, potential growth and earnings of the Company as well as other factors as the Board of Directors deems relevant.

Exhibit 21.1

DIALOGIC CORPORATION
PRINCIPAL SUBSIDIARIES OF THE REGISTRANT

NAME OF SUBSIDIARY	JURISDICTION OF ORGANIZATION
Dialogic Investment Corporation	New Jersey
Dialogic World Wide Services, Inc.	New Jersey
Dialogic (NZ) Limited	New Zealand
Dialogic Telecom Europe S.A.	Belgium
Dialogic Systems K. K.	Japan
Dialogic FSC, Ltd.	Barbados
Dialogic Israel, Ltd.	Israel
Dialogic S.E.A., Ptd	Singapore

INDEPENDENT AUDITORS' CONSENT

The Board of Directors and Shareholders
Dialogic Corporation
Parsippany, New Jersey 07054

We consent to the incorporation by reference in Registration Statements No. 333-08183, No. 333-11373, and No. 333-26993 of Dialogic Corporation of Form S-8 and Registration Statement No. 333-11369 and Amendment No. 1 to Registration No. 333-11369 of Dialogic Corporation on Form S-3 of our report dated January 27, 1999 (except for Note 10, as to which this date is March 2, 1999), incorporated by reference in this Annual Report on Form 10-K of Dialogic Corporation for the year ended December 31, 1998.

/s/ Deloitte & Touche LLP

Parsippany, New Jersey
March 24, 1999

POWER OF ATTORNEY

WHEREAS, the undersigned officers and directors of Dialogic Corporation desire to authorize Howard G. Bubb, Thomas G. Amato and Theodore M. Weitz to act as their attorneys-in-fact and agents, for the purpose of executing and filing an Annual Report on Form 10-K, including all amendments thereto,

NOW, THEREFORE,

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Howard G. Bubb, Thomas G. Amato and Theodore M. Weitz, and each of them, his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, to sign the Dialogic Corporation Annual Report on Form 10-K for the year ended December 31, 1997, including any and all amendments and supplements thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully and to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned have executed this power of attorney in the following capacities on this day of February, 1999.

SIGNATURE

TITLE

//s Howard G. Bubb

Howard G. Bubb

President, Chief Executive Officer
and Director

/s/Kenneth J. Burkhardt, Jr.

Kenneth J. Burkhardt, Jr.

Director

/s/Masao Konomi

Masao Konomi

Director

Director

/s/John N. Lemasters

John N. Lemasters

Director

/s/Francis G. Rodgers

Francis G. Rodgers

Director

/s/James J. Shinn

James J. Shinn

/s/Nicholas Zwick

Director

Nicholas Zwick

/s/Thomas G. Amato

Thomas G. Amato

Treasurer, Vice President and Chief
Financial Officer (Chief Financial and
Accounting Officer)

<TABLE> <S> <C>

<ARTICLE>

5

<LEGEND>

This financial data schedule contains a summary of financial information extracted from Dialogic Corporation's Balance Sheet at December 31, 1998, and twelve months income statement ending December 31, 1998, and is qualified in its entirety by reference to such financial statements.

</LEGEND>

<CIK>	0000899042
<NAME>	DIALOGIC CORPORATION
<MULTIPLIER>	1,000
<CURRENCY>	U.S.

<S>	<C>
<PERIOD-TYPE>	12-MOS
<FISCAL-YEAR-END>	DEC-31-1998
<PERIOD-END>	DEC-31-1998
<EXCHANGE-RATE>	1
<CASH>	39,774
<SECURITIES>	44,594
<RECEIVABLES>	56,965
<ALLOWANCES>	1,871
<INVENTORY>	21,847
<CURRENT-ASSETS>	177,734
<PP&E>	58,887
<DEPRECIATION>	(31,483)
<TOTAL-ASSETS>	216,983
<CURRENT-LIABILITIES>	38,175
<BONDS>	0
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	217
<OTHER-SE>	175,460
<TOTAL-LIABILITY-AND-EQUITY>	216,983
<SALES>	293,525
<TOTAL-REVENUES>	293,525
<CGS>	108,567
<TOTAL-COSTS>	108,567
<OTHER-EXPENSES>	150,875
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	165
<INCOME-PRETAX>	60,598
<INCOME-TAX>	23,990
<INCOME-CONTINUING>	0
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0

<NET-INCOME>	36,608
<EPS-PRIMARY>	2.29
<EPS-DILUTED>	2.21

</TABLE>