

# SECURITIES AND EXCHANGE COMMISSION

## FORM 8-K

Current report filing

Filing Date: **2001-02-02** | Period of Report: **2001-02-02**  
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### FILER

#### **SONUS NETWORKS INC**

CIK: **1105472** | IRS No.: **043387074** | State of Incorporation: **DE** | Fiscal Year End: **1231**  
Type: **8-K** | Act: **34** | File No.: **000-30229** | Film No.: **1524350**  
SIC: **7373** Computer integrated systems design

Mailing Address  
5 CARLISLE RD  
WESTFORD MA 01886

Business Address  
5 CARLISLE RD  
WESTFORD MA 01886  
9786928999

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

February 2, 2001

-----  
Date of Report (Date of earliest event reported)

-----  
SONUS NETWORKS, INC.

-----  
(Exact Name of Registrant as Specified in its Charter)

DELAWARE

000-30229

04-3387074

-----  
(State or Other Jurisdiction  
of Incorporation)

-----  
(Commission File Number)

-----  
(IRS Employer  
Identification No.)

5 CARLISLE ROAD, WESTFORD, MASSACHUSETTS 01886

-----  
(Address of Principal Executive Offices) (Zip Code)

(978) 692-8999

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

-----  
Item 2. Acquisition or Disposition of Assets

On January 18, 2001, Sonus Networks, Inc., a Delaware corporation ("Sonus"), and Storm Merger Sub, Inc., a Texas corporation and a wholly-owned subsidiary of Sonus ("Sub"), completed its acquisition of privately-held telecom technologies, inc., a Texas corporation ("TTI"), pursuant to an Agreement and Plan of Merger and Reorganization, dated as of November 2, 2000 (the "Merger Agreement"), in which Sub merged with and into TTI with TTI as the surviving corporation (the "Merger").

Upon the closing of this acquisition, an aggregate of 10,800,000 shares of Sonus common stock (the "Merger Shares") were exchanged for all outstanding shares of TTI Class A and Class B common stock. Of these 10,800,000 shares issued to the current TTI stockholders, 1,200,000 shares were placed into escrow as security for TTI's indemnity obligations under the Merger Agreement, and will be released to the TTI shareholders upon expiration of those indemnity obligations, expected to be on the first anniversary of the closing date.

In addition to the Merger Shares, the TTI shareholders will have the right to receive up to an aggregate of 4,200,000 additional shares (the "Milestone Shares") of Sonus common stock placed in escrow in the event that TTI achieves certain specified technical and business-related milestones (the "Milestone Conditions"), from time to time prior to December 31, 2002.

The Milestone Shares will be released as follows: (a) 1,800,000 shares will be released to the former TTI shareholders if TTI ships and receives customer acceptance of certain customer-related deliverables prior to December 31, 2001; (b) up to an aggregate of 900,000 shares will be released to the former TTI shareholders if TTI is able to incorporate certain specified features into its principal software product prior to certain dates ranging from May 31, 2001 to December 31, 2001; and (c) up to 1,500,000 shares will be released to the former TTI shareholders if TTI meets certain customer expansion goals in whole or in part on or prior to December 31, 2002. In the event that TTI does not meet any of these conditions in whole or in part, all or some (in the event of certain specified partial satisfactions of such conditions) of the Milestone Shares attributable to such conditions will revert to Sonus and be canceled. Under the Merger Agreement, Ms. Anousheh Ansari, the Chairman and Chief Executive Officer of TTI at the time of the acquisition, or a designated successor, has been granted certain specific management rights over the operations of TTI during the period between the closing and the earlier of the release of all of the Milestone Shares or December 31, 2002.

Under the terms of the Merger Agreement, Sonus has assumed all outstanding options to purchase TTI common stock, which have converted into the right to receive shares of Sonus common stock on the same terms as the outstanding TTI common stock converts in the Merger, including that an equivalent portion of these option shares will be subject to the indemnity escrow conditions and the Milestone Conditions. In continuation of a pre-existing agreement, Ms. Ansari shall transfer to Sonus shares of Sonus common stock, received by her in the Merger, necessary to cover the exercise of any TTI stock options assumed by Sonus. As a result, the number of shares

of Sonus common stock that will be issued upon the exercise of former TTI stock options that are assumed by Sonus will not increase the aggregate number of shares of Sonus common stock issuable upon or in connection with the merger.

In addition, immediately prior to the closing of the Merger, Sonus established the Sonus Networks, Inc. 2000 Retention Plan (the "Retention Plan"). Pursuant to the Retention Plan, certain employees of TTI have received contingent awards of shares of Sonus common stock that will vest in equal portions on each of October 31, 2002, November 30, 2002, January 31, 2003 and February 28, 2003, subject to the conditions that (i) such employees have maintained employment with the Company through the respective vesting dates and (ii) the Milestone Conditions have been satisfied in whole or in part, with the final number of shares of each award that will be deemed vested on each particular vesting date not to exceed in percentage terms the percent of the 4,200,000 Milestone Shares that have been actually released to the former TTI stockholders on or prior to such date. The maximum number of shares of Sonus common stock that may be subject to awards under the Retention Plan will be 3,000,000 shares. Any awards forfeited by employees who terminate employment with TTI prior to the aforementioned specified dates may be reallocated to remaining TTI employees, awarded to replacement hires, or returned to Sonus as provided by the terms of the Retention Plan.

Upon completion of the Merger, TTI became a division of Sonus and its operations will remain in Richardson, Texas. Ms. Anousheh Ansari became Vice President of Sonus and General Manager in charge of the division.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS.

(a) Financial Statements of Business Acquired.

The information required by this Item was previously reported in the Registration Statement on Form S-4 dated December 22, 2000, as amended.

(b) Pro Forma Financial Information.

The information required by this Item was previously reported in the Registration Statement on Form S-4 dated December 22, 2000, as amended.

(c) Exhibits.

EXHIBIT  
NUMBER

DESCRIPTION

2.1\* Agreement and Plan of Merger and Reorganization, dated as of November 2, 2000 (the "Merger Agreement").

23.1 Consent of Arthur Andersen LLP relating to the audited financial

statements of telecom technologies, inc.

99.1 Press release, dated January 18, 2001.

99.2 Consolidated Financial Statements of telecom technologies, inc.

99.3 Unaudited Pro Forma Condensed Combined Financial Information.

-----

\* Incorporated by reference to same numbered exhibit to the Sonus' Current Report on Form 8-K, filed November 17, 2000.

#### SIGNATURES

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

Date: February 2, 2001

SONUS NETWORKS, INC.

By: /s/ Stephen J. Nill

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Stephen J. Nill  
Vice President of Finance and Administration  
and Chief Financial Officer  
(Principal Financial and Accounting Officer)

#### EXHIBIT INDEX

Exhibit No. -----	Description -----
2.1*	Incorporated by reference Agreement and Plan of Merger and Reorganization, dated November 2, 2000, by and among Sonus Networks, Inc, telecom technologies, inc. and Storm Merger Sub, Inc.
23.1	Consent of Arthur Andersen LLP relating to the audited

financial statements of telecom technologies, inc.

99.1 Press release, dated January 18, 2001.

99.2 Consolidated Financial Statements of telecom technologies, inc.

99.3 Unaudited Pro Forma Condensed Combined Financial Information.

---

\*Incorporated by reference to the same numbered exhibit to the Sonus' Current Report on Form 8-K, filed November 17, 2000.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our report dated December 1, 2000 on the consolidated financial statements of telecom technologies, inc. (and to all references to our Firm) included in or made a part of this Form 8-K.

/s/ ARTHUR ANDERSEN LLP

Boston, Massachusetts  
February 2, 2001

## SONUS NETWORKS COMPLETES ACQUISITION OF TELECOM TECHNOLOGIES

STRATEGIC ACQUISITION BROADENS SONUS' PORTFOLIO OF VOICE SOLUTIONS;  
BOLSTERS SONUS' COMPREHENSIVE ACCESS STRATEGY

WESTFORD, Mass., January 18, 2001 - Sonus Networks (Nasdaq: SONS), a leading provider of voice infrastructure solutions for the new public network, today announced it has completed its acquisition of privately-held TELECOM TECHNOLOGIES, inc. Based in Richardson, Texas, TELECOM TECHNOLOGIES is a leading developer of next-generation softswitch solutions.

Under terms of the agreement, Sonus acquired TELECOM TECHNOLOGIES in a stock-for-stock transaction in which Sonus issued 10.8 million shares of stock. Sonus will also issue an additional 4.2 million shares of stock through the end of fiscal year 2002 if TELECOM TECHNOLOGIES achieves certain business objectives during that period. An additional 3.0 million restricted Sonus common shares will be granted to TELECOM TECHNOLOGIES' employees and will be subject to achievement of certain milestones and employment conditions over the next two years. The transaction will be accounted for as a purchase.

The integration of TELECOM TECHNOLOGIES' INtelligentIP-Registered Trademark-softswitch technology with Sonus' award-winning Packet Telephony suite will enable Sonus to offer carrier customers the industry's broadest range of features and functionality. TELECOM TECHNOLOGIES' focus on multivendor softswitch services and media gateway interoperability complements Sonus' scalable, high-performance next-generation switching and softswitch platforms, and extends Sonus' product portfolio, particularly in the access market.

"This acquisition gives us great confidence in our ability to win in this market," said Hassan Ahmed, president and CEO, Sonus Networks. "We are very proud to be joining forces with the TTI team, and we believe that the combination of the two companies will be great for our customers, will solidify our first mover advantage and will enhance our competitive position."

As previously announced, TELECOM TECHNOLOGIES' approximately 220 employees now form Sonus' new INtelligentIP division, and will remain in Richardson, Texas. TELECOM TECHNOLOGIES founder and CEO Anousheh Ansari has become a vice president of Sonus and general manager of the new division, and reports directly to Ahmed.

About Sonus Networks Sonus Networks, Inc. is a leading provider of voice infrastructure products for the new public network. Sonus' solutions enable service providers to deploy an integrated network capable of carrying both voice and data traffic, and to deliver a range of innovative, new services. The Sonus Open Services Architecture(TM) (OSA) and award-winning Packet Telephony suite cut the time-to-market for competitive new service products, allowing carriers

and third-party developers to expand marketshare and build important new revenue streams. Its highly scalable products fully interoperate with and extend the life and utility of today's public network. Sonus embodies in its management and staff decades of experience in developing carrier-class voice, data and multimedia solutions for implementation in the world's largest networks. Sonus, founded in 1997, is headquartered in Westford, Massachusetts. Additional information on Sonus is available at <http://www.sonusnet.com>.

This release may contain projections or other forward-looking statements regarding future events or the future financial performance of Sonus that involve risks and uncertainties. Readers are cautioned that these forward-looking statements

are only predictions and may differ materially from actual future events or results. Readers are referred to Sonus' Prospectus, dated January 12, 2001, and associated Registration Statement on Form S-4, filed with the SEC, which identifies important risk factors that could cause actual results to differ from those contained in the forward-looking statements. These risk factors include, among others, the Company's ability to grow its customer base, dependence on new product offerings, market acceptance of its products, rapid technological and market change, integration risks relating to the acquisition of TELECOM TECHNOLOGIES and manufacturing and sourcing risks.

For more information, please contact:

Beth Morrissey  
Sonus Networks  
978-589-8579  
[bmorrissey@sonusnet.com](mailto:bmorrissey@sonusnet.com)

Steve Nill  
Sonus Networks  
978-392-8277  
[snill@sonusnet.com](mailto:snill@sonusnet.com)

-----  
INtelligentIP is a registered trademark of Sonus Networks. Open Services Architecture is a trademark of Sonus Networks. All other company and product names may be trademarks of the respective companies with which they are associated.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS OF TELECOM TECHNOLOGIES, INC.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of  
telecom technologies, inc.:

We have audited the accompanying consolidated balance sheets of telecom technologies, inc. (a Texas corporation) as of December 31, 1998 and 1999, and the related consolidated statements of operations, redeemable common stock and stockholders' deficit and cash flows for the years then ended. 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 auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

Arthur Andersen LLP

Boston, Massachusetts  
December 1, 2000

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TELECOM TECHNOLOGIES, INC.  
CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT SHARE DATA)

<TABLE>  
<CAPTION>

	December 31,		September 30,
	----- 1998	1999	----- 2000
			----- (unaudited)
<S>	<C>	<C>	<C>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 520	\$ 533	\$ 1,550
Accounts receivable, net of allowance of \$100, \$150 and \$150 at December 31, 1998 and 1999 and September 30, 2000, respectively	3,540	5,587	1,825

Inventories	820	2,410	2,558
Deferred tax asset	1,930	1,421	1,028
Income tax receivable	--	740	780
Other current assets	116	292	849
	-----	-----	-----
Total current assets	6,926	10,983	8,590
PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization			
	655	2,122	3,230
OTHER ASSETS			
	519	799	1,004
	-----	-----	-----
	\$8,100	\$13,904	\$12,824
	=====	=====	=====

LIABILITIES, REDEEMABLE COMMON STOCK AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:			
Note payable to bank	\$3,000	\$4,000	\$5,000
Current portion of capital lease obligations	--	192	310
Accounts payable	599	2,489	1,350
Accrued expenses	1,111	1,685	3,224
Deferred revenue	1,465	2,430	4,438
	-----	-----	-----
Total current liabilities	6,175	10,796	14,322
DEFERRED INCOME TAXES			
	1,379	1,022	629
CAPITAL LEASE OBLIGATIONS, less current portion			
	--	673	930
COMMITMENTS (Note 6)			
REDEEMABLE COMMON STOCK, no par value:			
Issued and outstanding--7,777,780 shares of Class A voting common stock and 2,222,220 shares of Class B non-voting common stock, at redemption value (Note 7)	2,281	7,226	31,752
STOCKHOLDERS' DEFICIT:			
Class A voting common stock, no par value:			
Authorized-180,000,000 shares			
Issued and outstanding-70,000,000 shares	1	1	1
Class B non-voting common stock, no par value:			
Authorized-50,000,000 shares			
Issued and outstanding-20,000,000 shares	--	--	--
Capital in excess of par value	--	--	7,742
Accumulated deficit	(1,736)	(5,814)	(35,204)
Deferred compensation	--	--	(7,348)
	-----	-----	-----
Total stockholders' deficit	(1,735)	(5,813)	(34,809)
	-----	-----	-----
	\$ 8,100	\$13,904	\$12,824
	=====	=====	=====

</TABLE>

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

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TELECOM TECHNOLOGIES, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>  
<CAPTION>

	Year ended		Nine months ended	
	December 31,		September 30,	
	1998	1999	1999	2000
	-----	-----	-----	-----
			(unaudited)	
	<C>	<C>	<C>	<C>
REVENUES:				
Product	\$ 6,012	\$ 9,846	\$ 6,259	\$ 14,642
Professional services	8,732	9,486	6,799	5,326
	-----	-----	-----	-----
Total revenues	14,744	19,332	13,058	19,968
Cost of product and services(1)	11,083	11,637	9,562	10,324
	-----	-----	-----	-----

GROSS PROFIT	3,661	7,695	3,496	9,644
OPERATING EXPENSES:				
Research and development(1)	1,389	7,486	5,589	8,523
Sales and marketing(1)	1,183	3,287	1,602	3,113
General and administrative(1)	1,344	1,960	1,088	2,289
Stock-based compensation	--	--	--	394
Total operating expenses	3,916	12,733	8,279	14,319
LOSS FROM OPERATIONS	(255)	(5,038)	(4,783)	(4,675)
Other income (expense):				
Interest expense	(188)	(132)	(52)	(328)
Interest income	25	58	44	94
Sale of product line	--	5,500	5,500	--
Other income	8	815	766	45
INCOME (LOSS) BEFORE INCOME TAXES	(410)	1,203	1,475	(4,864)
Provision (benefit) for income taxes	(145)	336	411	--
NET INCOME (LOSS)	\$ (265)	\$ 867	\$ 1,064	\$ (4,864)
PER SHARE INFORMATION:				
Basic and diluted net income (loss) per share (Note 1(o))	\$ (0.00)	\$ 0.01	\$ 0.01	\$ (0.05)
Shares used in computation	100,000	100,000	100,000	100,000

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

Cost of product and services	\$ 5
Research and development	23
Sales and marketing	360
General and administrative	6
	-----
	\$ 394
	-----

</TABLE>

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

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TELECOM TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF REDEEMABLE COMMON STOCK AND STOCKHOLDERS' DEFICIT  
(IN THOUSANDS, EXCEPT SHARE DATA)

<TABLE>

<CAPTION>

	Class A and B Redeemable Common Stock		Common Stock					
	Shares	Redemption Value	Ordinary		Class A		Class B	
			Shares	Par Value	Shares	Par Value	Shares	Par Value
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE, JANUARY 1, 1998	2,000	\$ 949	18,000	\$ 1	--	\$ --	--	\$ --
Reorganization	9,998,000	--	(18,000)	(1)	70,000,000	1	20,000,000	--
Accretion of increase in value of redeemable common stock	--	1,332	--	--	--	--	--	--
Net loss	--	--	--	--	--	--	--	--
BALANCE, DECEMBER 31, 1998	10,000,000	2,281	--	--	70,000,000	1	20,000,000	--
Accretion of increase in value of redeemable common stock	--	4,945	--	--	--	--	--	--
Net income	--	--	--	--	--	--	--	--
BALANCE, DECEMBER 31, 1999	10,000,000	7,226	--	--	70,000,000	1	20,000,000	--
Accretion of increase in value of redeemable common stock (unaudited)	--	24,526	--	--	--	--	--	--
Deferred compensation relating to stock option grants (unaudited)	--	--	--	--	--	--	--	--
Amortization of deferred	--	--	--	--	--	--	--	--

compensation (unaudited)	--	--		--	--	--	--	--	--
Compensation related to stock options granted to non-employees (unaudited)	--	--		--	--	--	--	--	--
Net loss (unaudited)	--	--		--	--	--	--	--	--
----- -----									
BALANCE, SEPTEMBER 30, 2000 (UNAUDITED)	10,000,000	\$31,752		--	\$--	70,000,000	\$ 1	20,000,000	\$--
===== =====									

	Capital in Excess of Par Value	Accumulated Deficit	Deferred Compensation	Total Stockholders' Deficit
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
BALANCE, JANUARY 1, 1998	\$ --	\$ (139)	\$ --	\$ (138)
Reorganization	--	--	--	--
Accretion of increase in value of redeemable common stock	--	(1,332)	--	(1,332)
Net loss	--	(265)	--	(265)
-----				
BALANCE, DECEMBER 31, 1998	--	(1,736)	--	(1,735)
Accretion of increase in value of redeemable common stock	--	(4,945)	--	(4,945)
Net income	--	867	--	867
-----				
BALANCE, DECEMBER 31, 1999	--	(5,814)	--	(5,813)
Accretion of increase in value of redeemable common stock (unaudited)	--	(24,526)	--	(24,526)
Deferred compensation relating to stock option grants (unaudited)	7,578	--	(7,578)	--
Amortization of deferred compensation (unaudited)	--	--	230	230
Compensation related to stock options granted to non-employees (unaudited)	164	--	--	164
Net loss (unaudited)	--	(4,864)	--	(4,864)
-----				
BALANCE, SEPTEMBER 30, 2000 (UNAUDITED)	\$7,742	\$ (35,204)	\$ (7,348)	\$ (34,809)
=====				

</TABLE>

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

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TELECOM TECHNOLOGIES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)

<TABLE>  
<CAPTION>

	Year ended December 31,		Nine months ended September 30,	
	1998	1999	1999	2000
	----	----	-----	-----
			(unaudited)	
<S>	<C>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	\$ (265)	\$ 867	\$ 1,064	\$ (4,864)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:				
Depreciation and amortization	99	324	243	520
Deferred income taxes	(2,288)	153	99	-
Compensation expense associated with the grant of stock options to non-employees	-	-	-	164
Amortization of deferred compensation	-	-	-	230
Changes in operating assets and liabilities:				
Accounts receivable	(651)	(1,368)	759	3,762
Inventories	11	(1,590)	215	(148)
Income tax receivable	1,256	(740)	(740)	(40)
Other current assets	423	(176)	(910)	(557)
Other assets	(375)	(280)	(893)	(205)
Accounts payable and accrued expenses	(142)	2,464	203	400
Deferred revenue	1,465	965	1,029	2,008
	-----	-----	-----	-----

Net cash (used in) provided by operating activities.....	(467)	619	1,069	1,270
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property and equipment.....	(743)	(592)	(381)	(1,058)
Cash paid for acquisition.....	-	(904)	(904)	-
Net cash used in investing activities.....	(743)	(1,496)	(1,285)	(1,058)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net proceeds from note payable to bank.....	3,000	1,000	1,000	1,000
Payments on capital lease obligations.....	-	(110)	(68)	(195)
Payments on related party note.....	(1,660)	-	-	-
Net cash provided by financing activities.....	1,340	890	932	805
NET INCREASE IN CASH AND CASH EQUIVALENTS.....	130	13	715	1,017
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD.....	390	520	520	533
CASH AND CASH EQUIVALENTS, END OF PERIOD.....	\$ 520	\$ 533	\$ 1,235	\$ 1,550
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid for income taxes.....	\$ 600	\$ 1,000	\$ 1,000	\$ 40
Cash paid for interest.....	\$ 228	\$ 147	\$ 52	\$ 328
SUPPLEMENTAL DISCLOSURES OF NON-CASH TRANSACTIONS:				
Equipment obtained under capital lease obligations.....	\$ -	\$ 975	\$ 922	\$ 570
Software contributed in acquisition.....	\$ -	\$ 150	\$ 150	\$ -
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS RELATED TO ACQUISITION:				
Fair value of assets acquired, excluding cash.....	\$ -	\$ 1,054	\$ 1,054	\$ -
Software paid as consideration.....	\$ -	\$ (150)	\$ (150)	\$ -
Cash paid as consideration.....	\$ -	\$ (904)	\$ (904)	\$ -

</TABLE>

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

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TELECOM TECHNOLOGIES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(INFORMATION FOR SEPTEMBER 30, 1999 AND 2000 IS UNAUDITED)

(1) OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

telecom technologies, inc. (TTI) was incorporated on November 24, 1993 as a Texas corporation and is a provider of software products and services for network and service providers, offering end-to-end solutions for next generation, carrier-grade, multi-service networks. TTI's professional services include network design and planning, implementation, system integration, testing and support.

On November 2, 2000, TTI entered into a merger agreement with Sonus Networks, Inc. The completion of the proposed merger is subject to regulatory and stockholder approval of TTI and is expected to close in the first quarter of 2001.

The market for TTI's products and services is characterized by rapidly changing technology, evolving industry standards and new product introductions. TTI's market is intensely competitive. TTI's success will depend on its ability to enhance and market existing products and services and introduce new products, features and services to meet changing customer requirements and evolving standards. If the proposed merger is not successful, TTI will need to raise additional capital to meet its operating plans in 2001.

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

(a) PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the

accounts of TTI and its wholly-owned subsidiary. All material intercompany transactions and balances have been eliminated.

(b) UNAUDITED INTERIM CONSOLIDATED FINANCIAL INFORMATION

The consolidated financial statements for the nine months ended September 30, 1999 and 2000 and related footnote information are unaudited and have been prepared on the same basis as the audited consolidated financial statements. In the opinion of management, the interim unaudited consolidated financial statements included all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the results of these interim periods. The results for the nine months ended September 30, 2000 are not necessarily indicative of the operating results to be expected for the entire year.

(c) CASH AND CASH EQUIVALENTS

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

(d) CONCENTRATION OF CUSTOMERS AND CREDIT RISK AND LIMITED SUPPLIERS

Financial instruments that potentially subject TTI to concentrations of credit risk are cash and cash equivalents and accounts receivable. TTI has no significant off-balance-sheet concentrations

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TELECOM TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
(INFORMATION FOR SEPTEMBER 30, 1999 AND 2000 IS UNAUDITED)

such as foreign exchange contracts, options contracts or other foreign hedging arrangements. The majority of TTI's cash is maintained with a commercial bank.

TTI's customers are generally large companies in the United States operating in the telecommunications industry. Concentration of credit risk with respect to such customers is limited due to the size and financial strength of those customers who generally represent individually significant balances. TTI establishes an allowance for doubtful accounts as necessary based upon factors surrounding the credit risk of customers, historical trends, and other relevant information. TTI's receivables are generally unsecured.

Certain software licenses from third-parties used in TTI products are procured from a single source. The termination of any such license could interrupt TTI's delivery of products and thereby adversely affect TTI's revenues and operating results.

For the years ended December 31, 1998 and 1999 and the nine months ended September 30, 1999 and 2000, three, two, four and four customers, respectively, each of whom contributed more than 10% of revenue, and who accounted for an aggregate of 63%, 51%, 71% and 77% of TTI's revenues, respectively. As of December 31, 1998 and 1999 and September 30, 2000, two, two and four customers, respectively accounted for 65%, 66% and 80% of TTI's accounts receivable.

(e) INVENTORIES

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

(f) PROPERTY AND EQUIPMENT

Property and equipment are stated at cost net of accumulated depreciation and amortization. TTI records depreciation of property and equipment using the straight-line method over the estimated useful lives of the assets.

(g) REVENUE RECOGNITION

Revenue from software license agreements is recognized upon execution of the contract and shipment of the software provided that there are no uncertainties regarding acceptance, persuasive evidence of an arrangement exists, the fee is fixed or determinable and collection of the related receivable is considered probable. If uncertainties exist, TTI recognizes revenue when those uncertainties are resolved. In multiple element arrangements, TTI uses the residual method of accounting in accordance with

Service revenue consists primarily of contract engineering and consulting services. TTI also provides consulting services to customize its software products on a contract basis. Services are provided on both a time-and-materials basis and a fixed fee basis. Revenue with respect to time-and-materials contracts is recognized as services are provided. Revenue from services on fixed fee contracts is recognized under the terms of the contract based upon when the services have been provided and accepted by the customer, if required. Provisions for losses on service contracts are recorded in the period in which they first become determinable.

Deferred revenue includes customer payments on transactions that do not meet TTI's revenue recognition criteria as of the balance sheet date.

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TELECOM TECHNOLOGIES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
(INFORMATION FOR SEPTEMBER 30, 1999 AND 2000 IS UNAUDITED)

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS. TTI's revenue recognition policy complies with this pronouncement.

(h) SOFTWARE DEVELOPMENT COSTS

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

(i) INCOME TAXES

TTI has computed its provision for income taxes using the liability method. Under the liability method, deferred income tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities and are measured using the enacted tax rates and laws.

(j) STOCK-BASED COMPENSATION

TTI uses the intrinsic value based method of Accounting Principles Board Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES, to account for its employee stock-based compensation plan and uses the fair value method to account for all nonemployee stock-based compensation.

(k) COMPREHENSIVE INCOME (LOSS)

TTI applies SFAS No. 130, REPORTING COMPREHENSIVE INCOME. The comprehensive income (loss) for the years ended December 31, 1998 and 1999 and the nine months ended September 30, 1999 and 2000 does not differ from the reported income (loss).

(l) FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of TTI's financial instruments, which include cash equivalents, accounts receivable, accounts payable, accrued expenses and long-term obligations, approximate their fair value.

(m) USE OF ESTIMATES

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

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(n) NEW PRONOUNCEMENTS

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

(o) NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of common shares and potential common stock outstanding during the period, if dilutive. Basic and diluted net income (loss) per share are the same, as any common stock to be issued upon the exercise of stock options is to be contributed by the majority stockholder and therefore is not dilutive (see Note 7).

(p) DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE

SFAS No. 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION, establishes standards for reporting information regarding operating segments and establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision making group, in making decisions regarding resource allocation and assessing performance. To date, TTI has viewed its operations and manages its business as principally one operating segment.

(2) PROPERTY AND EQUIPMENT

Property and equipment consist of the following, in thousands:

<TABLE>  
<CAPTION>

	Estimated Useful Life	December 31,		September 30,
		1998	1999	2000
<S>	<C>	<C>	<C>	<C>
Equipment and software .....	5 years	\$ 638	\$2,350	\$3,978
Furniture and fixtures .....	7 years	34	113	113
Leasehold improvements .....	Life of lease	91	91	91
		763	2,554	4,182
Less--Accumulated depreciation and amortization .....		(108)	(432)	(952)
		\$655	\$2,122	\$3,230

</TABLE>

Included in property and equipment are \$975,000 and \$1,545,000 of equipment purchased under capital lease obligations at December 31, 1999 and September 30, 2000, respectively.

(3) BALANCE SHEET DATA

(a) ACCRUED EXPENSES

Accrued expenses consist of the following, in thousands:

	December 31,		September 30,
	1998	1999	2000
Employee compensation and related costs.....	\$ 809	\$ 1,168	\$ 2,484
Accrued taxes.....	287	210	210
Other.....	15	307	530
	\$ 1,111	\$ 1,685	\$ 3,224

(b) ALLOWANCE FOR DOUBTFUL ACCOUNTS

The following is an analysis of TTI's allowance for doubtful accounts, in thousands:

Description	Balance, Beginning of Period	Charged to Costs and Expenses	Deductions	Balance, End of Period
Allowance for doubtful accounts-				
December 31, 1998.....	\$ --	\$ 100	\$ --	\$ 100
December 31, 1999.....	100	73	(23)	150
September 30, 2000.....	150	--	--	150

(4) NOTE PAYABLE TO BANK

TTI has a \$10,000,000 demand line of credit with a bank, bearing interest at the bank's prime rate (8.5% at December 31, 1999 and 9.5% at September 30, 2000) available through December 31, 2000. The borrowings are based upon 80% of eligible accounts receivable (the Formula) and all of TTI's assets are pledged as collateral under the agreement. Borrowings in excess of the Formula, up to \$4,000,000, have been personally guaranteed by certain officers of TTI and the majority shareholder. At December 31, 1998 and 1999, and September 30, 2000, TTI had outstanding borrowings of \$3,000,000, \$4,000,000 and \$5,000,000, respectively. At September 30, 2000, TTI had available borrowings under the line of credit of \$4,600,000, based upon an available amount of \$600,000 under the Formula and \$4,000,000 guaranteed by certain officers and the majority shareholder.

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TELECOM TECHNOLOGIES, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 (INFORMATION FOR SEPTEMBER 30, 1999 AND 2000 IS UNAUDITED)

(5) INCOME TAXES

The provision (benefit) for income taxes consist of the following, in thousands:

	Year ended December 31,	
	1998	1999
Current:		
Federal.....	\$ (1,960)	\$ 144
State.....	(277)	39
	(2,237)	183

Deferred:		
Federal.....	2,087	134
State.....	295	19
	-----	-----
	2,382	153
	-----	-----
	\$ (145)	\$ 336
	=====	=====

</TABLE>

TTI's effective tax rate differs from the statutory federal income tax rate due to the following:

<TABLE>  
<CAPTION>

	Year ended December 31,	
	-----	-----
	1998	1999
	-----	-----
<S>	<C>	<C>
Statutory federal rate.....	(34)%	34%
Research and development credit.....	--	(11)
Non-deductible expenses.....	2	2
State income taxes, net of federal tax benefit/provision...	(3)	3
	-----	-----
Effective tax rate.....	(35)%	28%
	=====	=====

</TABLE>

Deferred tax assets (liabilities) consist of the following, in thousands:

<TABLE>  
<CAPTION>

	Year ended December 31,	
	-----	-----
	1998	1999
	-----	-----
<S>	<C>	<C>
Deferred tax assets (liabilities):		
Deferred revenue.....	\$ 2,958	\$ 2,450
Cash to accrual differences.....	(1,371)	(914)
Property and equipment.....	(7)	(34)
Non-deductible reserves.....	37	37
Other.....	--	(74)
Valuation allowance.....	(1,066)	(1,066)
	-----	-----
Net deferred tax asset.....	\$ 551	\$ 399
	=====	=====

</TABLE>

TTI records a valuation allowance against its deferred tax assets to the extent management believes it is more likely than not that the asset will not be realized. At September 30, 2000, TTI had net deferred tax assets of \$399,000, which will be realized through the utilization of available net operating loss carrybacks.

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TELECOM TECHNOLOGIES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
(INFORMATION FOR SEPTEMBER 30, 1999 AND 2000 IS UNAUDITED)

(6) COMMITMENTS

TTI leases office space and certain equipment under various noncancelable operating and capital leases. The capital leases are due in monthly installments expiring at various dates through March 2005 and accrue interest at annual rates ranging from 5.65% to 10.26%. TTI's future minimum payment obligations as of September 30, 2000 under such leases are as follows, in thousands:

<TABLE>  
<CAPTION>

Operating	Capital
-----	-----

<S>	<C>	<C>
2000 (three months).....	\$ 1,292	\$ 126
2001.....	1,303	504
2002.....	1,249	487
2003.....	526	450
2004.....	79	313
Thereafter.....	--	60
	-----	-----
Total minimum lease payments.....	\$ 4,449	1,940
	=====	
Less amount representing interest.....		700
		-----
Present value of minimum payments.....		1,240
Less current portion.....		310
		-----
Long-term portion.....		\$ 930
		=====

</TABLE>

Rental expense for all operating leases was \$596,000, \$780,000, \$590,000 and \$1,243,000 for the years ended December 31, 1998 and 1999 and the nine months ended September 30, 1999 and 2000, respectively. Certain property and equipment has been pledged as security under TTI's lease agreement for the corporate headquarters located in Richardson, Texas.

(7) REDEEMABLE COMMON STOCK

During 1997, the majority stockholder of TTI sold 10% of the common stock of TTI to an outside investor for \$4 million. Under the terms of a stockholders agreement, the investor has a redemption option that became exercisable on April 15, 2000. The redemption option allows the investor to require either the majority stockholder or TTI to purchase all or any part of the shares held by the investor at the then current fair market value as determined by an independent appraiser. The redemption option terminates in the event TTI receives an offer to purchase all of the outstanding common stock for at least \$100 million which the majority stockholder elects to accept but which the investor elects not to accept.

In accordance with United States generally accepted accounting principles, the carrying value of the redeemable common stock has been increased based on changes in the fair market value of the common stock of TTI and has been shown as a liability. Accordingly, during the years ended December 31, 1998 and 1999 and the nine months ended September 30, 2000, TTI recorded a charge to accumulated deficit of \$1,332,000, \$4,945,000 and \$24,526,000, respectively, for the increase in the value of the redeemable common stock.

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TELECOM TECHNOLOGIES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
(INFORMATION FOR SEPTEMBER 30, 1999 AND 2000 IS UNAUDITED)

For purposes of these financial statements, the estimated value of the redeemable common stock held by the investor of \$31,752,000 at September 30, 2000 is based upon the value of the TTI common stock in the proposed merger discussed in Note 1 using the closing sale price of Sonus common stock on November 2, 2000, the last trading day prior to the announcement of the merger. In the event that the investor exercised his redemption option, an appraisal of the shares held by such investor would be obtained in accordance with the terms of the stockholders agreement, the outcome of which could vary significantly from the amount recorded at September 30, 2000 in the accompanying balance sheet. Upon consummation of the proposed merger, the redemption feature of this common stock will terminate.

(8) STOCKHOLDERS' EQUITY

(a) COMMON STOCK

On March 31, 1998, the Board of Directors approved an amendment to the articles of incorporation that changed the common stock structure through an exchange of all outstanding ordinary stock for Class A voting, no par and Class B non-voting, no par, common stock. Through this amendment, the 1,000 common shares outstanding were replaced with 3,888,889 Class A and 1,111,111 Class B shares.

During 1999, TTI's Board of Directors approved an increase in the number of authorized shares of common stock and two stock splits (which aggregated to a 20-for-1 split), increasing the number of issued and outstanding shares of class A common stock to 77,777,780 and increasing outstanding shares of class B common stock to 22,222,220. All share and per share information presented in the accompanying consolidated financial statements and notes thereto has been retroactively restated for the effects

of the stock splits.

(b) EQUITY INCENTIVE PLAN

On April 8, 1998, the Board of Directors adopted the telecom technologies, inc. Equity Incentive Plan (the Plan). The Plan provides for a maximum of 20,000,000 options for the purchase of Class B non-voting common stock to be granted to employees and consultants with exercise prices equal to the fair market value of the stock as of the date of grant. Under the Plan, TTI may grant incentive or non-qualified stock options. The options vest ratably over a period of two to four years and expire after five years.

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TELECOM TECHNOLOGIES, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 (INFORMATION FOR SEPTEMBER 30, 1999 AND 2000 IS UNAUDITED)

A summary of activity under the Plan is as follows:

<TABLE>

<CAPTION>

	NUMBER OF SHARES	EXERCISE PRICE	WEIGHTED AVERAGE EXERCISE PRICE
	-----	-----	-----
<S>	<C>	<C>	<C>
Outstanding, January 1, 1998.....	--	\$ --	\$ --
Granted.....	2,200,000	0.80	0.80
Canceled.....	(320,000)	0.80	0.80
	-----		
Outstanding, December 31, 1998.....	2,980,000	0.80	0.80
Granted.....	9,919,800	0.80-1.00	0.91
Canceled.....	(220,000)	0.80-1.00	0.80
	-----		
Outstanding, December 31, 1999.....	12,679,800	0.80-1.00	0.89
Granted.....	3,191,050	1.00-1.50	1.04
Canceled.....	(411,905)	0.80-1.00	0.82
Exercised.....	(248,620)	0.80	0.80
	-----		
Outstanding, September 30, 2000.....	15,210,325	\$0.80-1.50	\$ 0.91
	=====	=====	=====
Exercisable, December 31, 1999.....	3,296,958	\$0.80-1.00	\$ 0.86
	=====	=====	=====
Exercisable, September 30, 2000.....	3,567,750	\$0.80-1.00	\$ 0.80
	=====	=====	=====

</TABLE>

The weighted average fair value of options granted during the years ended December 31, 1998 and 1999 and the nine months ended September 30, 2000 was \$0.35, \$0.40 and \$0.44 per share, respectively. The grant date fair values were estimated using the Black-Scholes option pricing model. The weighted average remaining life of the options outstanding at December 31, 1999 and September 30, 2000 was approximately 4.4 and 4.1 years, respectively.

During 1997, the majority stockholder of TTI sold 10% of their then 100% ownership of the common stock of TTI to an outside investor. In connection with the sale, TTI, the majority stockholder and the investor agreed that the investor would not be diluted below 10% ownership of TTI from the issuance of additional equity in TTI, including stock options.

In order to prevent the exercise of options under the Plan from diluting the investor below 10% ownership, the majority stockholder has agreed to fund option exercises from her personal holdings of class B non-voting common stock. Accordingly, as stock options are exercised, the proceeds are collected by TTI and remitted to the majority stockholder, who in turn transfers the number of shares for which the option has been exercised to TTI for delivery to the option holder. TTI acts only as a facilitator for the transfer of stock from its majority stockholder to its option holders upon the exercise of options. No new equity is issued by TTI as the result of any option exercises.

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

In connection with certain employee stock option grants for the nine months ended September 30, 2000, TTI recorded deferred compensation of \$7,578,000. This represents the aggregate difference between the exercise price and the fair value of the common stock on the date of grant for

accounting purposes. The deferred compensation will be recognized as an expense over the vesting period of the underlying stock options. TTI recorded

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TELECOM TECHNOLOGIES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
(INFORMATION FOR SEPTEMBER 30, 1999 AND 2000 IS UNAUDITED)

compensation expense of \$230,000 for the nine months ended September 30, 2000, related to these options. Based on the grant of these stock options, TTI expects to record approximately \$1,216,000, \$3,363,000, \$1,760,000, \$910,000 and \$329,000 in employee compensation expense for the years ending December 31, 2000, 2001, 2002, 2003 and 2004, respectively.

TTI has valued the stock options granted to non-employees based upon the Black-Scholes option pricing model. As of December 31, 1999 and September 30, 2000, TTI had 25,000 and 525,000 stock options, respectively, outstanding to non-employees. Stock-based compensation expense for the grant of options to non-employees was not material for the year ended December 31, 1999. TTI has recorded stock-based compensation expense of \$164,000 for the grant of options to non-employees for the nine months ended September 30, 2000. In accordance with Emerging Issues Task Force 96-18, TTI will record the value as the services are provided.

TTI has computed the pro forma disclosures required under SFAS No. 123 for options granted to employees for the years ended December 31, 1998 and 1999, using the Black-Scholes option pricing model with an assumed risk-free interest rate of 5.0%, 60% volatility and an expected life of 3 years with the assumption that no dividends will be paid. Had compensation expense been determined consistent with SFAS No. 123, the pro forma net income (loss) and pro forma net income (loss) per share would have been as follows:

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31,	
	1998	1999
	----	----
<S>	<C>	<C>
Net income (loss), in thousands--		
As reported.....	\$ (265)	\$ 867
Pro forma.....	\$ (436)	\$ 372
Basic and diluted net income (loss) per share--		
As reported.....	\$ (0.00)	\$ 0.01
Pro forma.....	\$ (0.00)	\$ 0.00

</TABLE>

(9) RELATED PARTY TRANSACTION

In June 1999, TTI issued a demand note receivable to its majority stockholder for \$1,486,000. This note accrued interest at 9.75% annually and was repaid in full in November 1999.

(10) 401(k) PLAN

TTI sponsors a defined contribution pension plan covering substantially all employees. TTI's contributions to this plan are based on percentages of participants' wages. During the years ended December 31, 1998 and 1999 and the nine months ended September 30, 1999 and 2000, TTI made contributions totaling approximately \$29,000, \$210,000, \$158,000 and \$198,000, respectively.

(11) ACQUISITIONS AND DISPOSITIONS

(a) PURCHASE OF SEQUEL SYSTEMS

On August 31, 1999, TTI purchased substantially all of the assets of Sequel Systems, Inc. (Sequel) for cash of \$889,000 and a software license valued at \$150,000. Additional direct cash costs of the acquisition totaled

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TELECOM TECHNOLOGIES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
(INFORMATION FOR SEPTEMBER 30, 1999 AND 2000 IS UNAUDITED)

approximately \$15,000. Sequel provided professional services related to data conversion, data migration and circuit design in connection with telecommunication systems software industry specializing in open computing technology solutions and methodology. The transaction was accounted for under the purchase method of accounting, whereby the assets and liabilities of the Sequel were recorded by TTI at their fair value at the time of acquisition. In connection with the acquisition, TTI recorded accounts receivable and property and equipment of \$828,000 and \$224,000, respectively. The Sequel results of operations have been included in TTI's financial statements beginning with the date of acquisition.

(b) SALE OF PRODUCT LINE

In December 1998, TTI entered into an agreement to sell the intellectual property rights and assets related to its network testing software product line for \$5,500,000 plus royalties on future sales of the product line. As part of the agreement, the purchaser agreed to purchase, at fair market value, research and development and manufacturing services from TTI for a minimum of two years. TTI also has agreed to provide consulting and support services for end users on a time and materials basis.

The revenue from this transaction was recorded in 1999, as the sale was contingent upon the execution of the research and development and manufacturing agreements, which were signed on January 11, 1999. These future services are not essential to the functionality of the assets being sold and have been contracted at their fair value.

The proceeds from the sale of product line are presented in other income in the accompanying consolidated statement of operations. Employees and certain assets associated with the network testing software product line were retained by TTI for the purposes of fulfilling TTI's obligations under the research and development and contract manufacturing agreements. For the year ended December 31, 1999 and the nine months ended September 2000, revenues under these agreements included in product revenues in the accompanying consolidated statements of operations totaled \$7,372,000 and \$5,192,000, respectively.

(12) INSURANCE SETTLEMENT

In April 1999, TTI received a settlement of approximately \$620,000 under the terms of a business interruption insurance policy applicable to a prior-year claim. This amount has been included in other income in the accompanying consolidated statement of operations. Approximately \$420,000 was paid to TTI during 1999, with the remaining \$200,000 to be paid in two equal installments during 2000 and 2001.

## UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined financial information gives effect to the merger using the purchase method of accounting after giving effect to the pro forma adjustments described in the accompanying notes. The unaudited pro forma condensed combined financial information should be read in conjunction with the audited historical financial statements and related notes of Sonus and TTI which appear elsewhere in this proxy statement/prospectus.

Pursuant to the terms of the merger agreement, a wholly-owned subsidiary of Sonus will merge with and into TTI and the shareholders of TTI will be entitled to receive up to an aggregate of 15,000,000 shares of Sonus common stock. Of these shares, 9,600,000 will be issued to the TTI shareholders on the closing date and an aggregate of up to 1,200,000 of escrowed shares that may be released to Sonus in satisfaction of indemnification claims that may be made by Sonus under the merger agreement. The remaining 4,200,000 shares will be held in escrow for release to the former TTI shareholders if certain agreed upon specified business expansion and product development performance milestones are achieved by TTI on or prior to specified dates prior to December 31, 2002.

Sonus has also agreed under the merger agreement to make contingent awards of up to 3,000,000 shares of common stock to certain employees of TTI who will become employees of Sonus as a result of the merger under the Sonus 2000 Retention Plan. These awards will vest in equal installments on each of October 31, 2002, November 30, 2002, January 31, 2003 and February 28, 2003, if (1) the recipients do not voluntarily terminate employment with TTI or Sonus prior to such vesting dates, and (2) the business expansion and product development escrow release conditions are satisfied in whole or in part. The portion of the total number of shares of Sonus common stock awarded to each employee that will be deemed vested on each vesting date will not exceed the proportion of all of the shares escrowed in the merger subject to the satisfaction of the business expansion and product development escrow release conditions that have been released prior to such vesting date. Generally, any awards forfeited by employees who terminate employment with TTI, other than a termination by Sonus or TTI without cause, prior to the date on which they would otherwise vest, may be reallocated to remaining TTI employees, awarded to replacement hires or returned to Sonus as provided by the terms of this plan. The value of the 3,000,000 shares awarded under the retention plan is expected to be expensed ratably over the approximate two year vesting period based upon the closing price of Sonus common stock on the date the merger is consummated (estimated to be \$40.88 per share in the unaudited pro forma condensed combined financial statements) as adjusted for the change in the fair value on the date the specific escrow release conditions are satisfied.

The merger will be accounted for using the purchase method of accounting in accordance with Accounting Principles Board (APB) No. 16. Accordingly, the total purchase price will be allocated to the assets acquired and liabilities assumed based upon their estimated fair values. The purchase price will be determined by using the average market value of Sonus common stock for the period from two days before to two days after the announcement of the TTI merger (\$41.61 per share) to value the 10,800,000 Sonus common shares deemed to be issued to the TTI shareholders at the closing date, comprised of the 9,600,000 shares issuable at the closing and the 1,200,000 indemnity escrowed shares, and adding the fair value of liabilities assumed and expenses of the merger. The estimate of the purchase price which has been used for the unaudited pro forma condensed combined financial information is as follows, in thousands:

<TABLE>

<S>

<C>

Fair market value of shares to be issued.....	\$450,000
Estimated liabilities to be assumed.....	16,000
Estimated merger expenses.....	11,000
	-----
	\$477,000
	=====

</TABLE>

The actual purchase price will be determined at closing and will reflect the actual closing balance sheet of TTI and in accordance with APB No. 16, with the assistance of valuation experts, the purchase price will be allocated to the tangible and intangible assets acquired based upon their fair values. Based upon preliminary appraisals, the purchase price allocation which has been used for the unaudited proforma condensed combined financial information is as follows, in thousands:

<TABLE>

<S>	<C>
Tangible assets.....	\$13,000
Intangible assets:	
Workforce.....	2,700
Developed technology.....	8,400
Customer list.....	15,400
In-process research and development.....	40,000
Prepaid compensation related to unvested options.....	22,600
Goodwill.....	374,900
	-----
	\$477,000
	=====

</TABLE>

The final purchase price allocation will be determined in 2001, after the closing, and will reflect the final purchase price calculation and the final appraisals of the tangible and intangible assets acquired. In addition, to the extent that any of the 4,200,000 escrowed shares are released to the former TTI shareholders, the purchase price and goodwill will be increased by the value of such shares on the date the relevant escrow release condition is satisfied.

Sonus has engaged third party appraisers to conduct a valuation of the intangible assets and to assist in the determination of useful lives for such assets. Based on the preliminary appraisal, \$40,000,000 has been allocated to in-process research and development which will be expensed in the period the merger is consummated. The amounts allocated to developed technology, customer list, assembled workforce and goodwill will be amortized over their estimated useful lives of 3 to 4 years. Prepaid compensation was computed based on the intrinsic value of the unvested TTI options assumed by Sonus and will be expensed over the remaining vesting period of approximately 3 years.

The valuation of in-process research and development was determined using the income method. Revenue and expense projections for the in-process development project were prepared by the management of Sonus through 2008 and the present value was computed using a discount rate of 22.5%. The in-process project is not expected to reach technological feasibility until the end of 2001, at an estimated cost to complete of approximately \$5.0 million. In the event that the project is not completed and technological feasibility is not achieved, there is no alternative future use for the in-process technology. The assumptions used for the valuation of in-process research and development are the responsibility of management and are subject to change.

The unaudited proforma condensed combined financial information does not purport to represent what the consolidated financial position or results of operations actually will be upon closing or at the beginning of the periods presented or to project the results of operations or financial

position for any future period or at a future date. The unaudited pro forma financial information does not give effect to any cost savings and other synergies that may result from the merger. Sonus is developing plans for integration of TTI and has not determined if there will be any cost savings.

UNAUDITED PRO FORMA CONDENSED  
COMBINED BALANCE SHEET  
AS OF SEPTEMBER 30, 2000  
(in thousands)

<TABLE>  
<CAPTION>

	HISTORICAL		Adjustments	Pro forma combined
	Sonus	TTI		
<S>	<C>	<C>	<C>	<C>
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents .....	\$152,685	\$1,550	\$ (16,000) (G)	\$138,235
Accounts receivable, net of allowances .....	7,617	1,824	--	9,441
Inventories .....	14,388	2,558	--	16,946
Other current assets .....	1,879	2,550	--	4,429
	-----	-----	-----	-----
TOTAL CURRENT ASSETS	176,569	8,482	(16,000)	169,051
Property and equipment, net .....	10,703	3,338	--	14,041
Intangible assets .....	--	--	401,400 (E)	401,400
Other assets, net .....	911	1,004	--	1,915
	-----	-----	-----	-----
	\$188,183	\$12,824	\$385,400	\$586,407
	=====	=====	=====	=====
LIABILITIES, REDEEMABLE COMMON STOCK AND SHAREHOLDERS' EQUITY (DEFICIT)				
CURRENT LIABILITIES:				
Current portion of capital lease obligations .. \$	--	\$ 310	\$ --	\$ 310
Note payable to bank .....	--	5,000	(5,000) (G)	--
Accounts payable .....	11,800	1,350	--	13,150
Accrued expenses .....	13,763	3,224	--	16,987
Deferred revenue .....	12,264	4,438	--	16,702
	-----	-----	-----	-----
TOTAL CURRENT LIABILITIES .....	37,827	14,322	(5,000)	47,149
Deferred income taxes .....	--	629	--	629
Capital lease obligations, less current portion ..	--	930	--	930
Redeemable common stock .....	--	31,752	(31,752) (F)	--
STOCKHOLDERS' EQUITY (DEFICIT):				
Common stock .....	184	1	(1) (F)	195
			11 (F)	
Capital in excess of par value .....	268,165	7,742	(7,742) (F)	718,097
			449,932 (F)	
Accumulated deficit .....	(77,688)	(35,204)	35,204 (F)	(117,688)
			(40,000) (E)	
Stock subscriptions receivable .....	(346)	--	--	(346)
Deferred compensation .....	(39,894)	(7,348)	7,348 (F)	(62,494)
			(22,600) (E)	
Treasury stock .....	(65)	--	--	(65)
	-----	-----	-----	-----
Total stockholders' equity (deficit) .....	150,356	(34,809)	422,152	537,699
	-----	-----	-----	-----
	\$188,183	\$12,824	\$385,400	\$586,407
	=====	=====	=====	=====

</TABLE>

UNAUDITED PRO FORMA CONDENSED  
COMBINED STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 1999  
(in thousands, except per share data)

<TABLE>  
<CAPTION>

	HISTORICAL		Adjustments	Pro forma combined
	Sonus	TTI		
<S>	<C>	<C>	<C>	<C>
REVENUES .....	\$ --	\$ 19,332	\$ --	\$ 19,332
Manufacturing, product and service costs ...	1,861	11,637	--	13,498
GROSS PROFIT (LOSS) .....	(1,861)	7,695	--	5,834
OPERATING EXPENSES:				
Research and development .....	10,780	7,486	--	18,266
Sales and marketing .....	5,606	3,287	--	8,893
General and administrative .....	1,723	1,960	--	3,683
Amortization of intangibles .....	--	--	102,558 (A)	102,558
Stock-based compensation .....	4,404	--	68,216 (B)	72,620
Total operating expenses .....	22,513	12,733	170,774	206,020
LOSS FROM OPERATIONS .....	(24,374)	(5,038)	(170,774)	(200,186)
Sale of product line .....	--	5,500	--	5,500
Other income (expense), net .....	487	741	--	1,228
INCOME (LOSS) BEFORE INCOME TAXES .....	(23,887)	1,203	(170,774) (D)	(193,458)
Provision for income taxes .....	--	336	(336)	--
NET INCOME (LOSS) .....	(23,887)	867	(170,438)	(193,458)
Beneficial conversion feature of Series C preferred stock .....	(2,500)	--	--	(2,500)
NET INCOME (LOSS) APPLICABLE TO COMMON STOCKHOLDERS .....	\$ (26,387)	\$ 867	\$ (170,438)	\$ (195,958)
NET INCOME (LOSS) PER SHARE:				
Basic and diluted .....	\$ (1.84)	\$ 0.01		\$ (7.80)
Pro forma basic and diluted	\$ (0.25)	\$ 0.01		\$ (1.81)
SHARES USED IN COMPUTING NET LOSS PER SHARE:				
Basic and diluted .....	14,324	100,000	10,800	25,124
Pro forma basic and diluted	96,188	100,000	10,800	106,988

</TABLE>

See notes to unaudited pro forma condensed combined financial information.

UNAUDITED PRO FORMA CONDENSED  
COMBINED STATEMENT OF OPERATIONS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000  
(in thousands, except per share data)

<TABLE>  
<CAPTION>

	HISTORICAL		Adjustments	Pro forma combined
	Sonus	TTI		
<S>	<C>	<C>	<C>	<C>
REVENUES	\$ 23,171	\$ 19,968	\$ --	\$ 43,139
Manufacturing, product and service costs	14,846	10,324	--	25,170
GROSS PROFIT	8,325	9,644	--	17,969
OPERATING EXPENSES:				
Research and development	18,231	8,523	--	26,754
Sales and marketing	13,576	3,113	--	16,689
General and administrative	3,750	2,289	(150) (C)	5,889
Amortization of intangibles	--	--	76,919 (A)	76,919
Stock-based compensation	20,347	394	51,162 (B)	71,903
Total operating expenses	55,904	14,319	127,931	198,154
LOSS FROM OPERATIONS	(47,579)	(4,675)	(127,931)	(180,185)
Other income (expense)	3,813	(189)	--	3,624
NET LOSS	\$ (43,766)	\$ (4,864)	\$ (127,931)	\$ (176,561)
NET LOSS PER SHARE:				
Basic and diluted	\$ (0.57)	\$ (0.05)		\$ (2.00)
Pro forma basic and diluted	\$ (0.34)	\$ (0.05)		\$ (1.25)
SHARES USED IN COMPUTING NET LOSS PER SHARE:				
Basic and diluted	77,448	100,000	10,800	88,248
Pro forma basic and diluted	130,291	100,000	10,800	141,091

</TABLE>

See notes to unaudited pro forma condensed combined financial information.

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#### NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

##### BASIS OF PRESENTATION

The unaudited pro forma condensed combined statements of operations for the year ended December 31, 1999 and the nine months ended September 30, 2000 gives effect to the merger as if the transaction had occurred at the beginning of the period presented. The unaudited pro forma condensed combined balance sheet as of September 30, 2000 gives effect to the merger as if the transaction had occurred on September 30, 2000. The unaudited pro forma condensed combined financial information is based upon a preliminary calculation of the purchase price and a preliminary purchase price allocation. This unaudited information will change based upon the actual closing.

Below is a table of the preliminary purchase price allocation, which reflects the total purchase price of \$477,000,000 consisting of the 10,800,000 shares of Sonus common stock to be issued at closing, composed of the 9,600,000 shares issuable at the closing and the 1,200,000 indemnity escrow shares, which have been valued at \$450,000,000, merger related fees and expenses of \$11,000,000 and assumed liabilities of \$16,000,000, in thousands:

<TABLE>

<S>	<C>
Tangible assets acquired.....	\$ 13,000
Assembled workforce.....	2,700
Acquired technology.....	8,400
Customer lists.....	15,400
In-process research and development.....	40,000
Prepaid compensation related to unvested options.....	22,600
Goodwill.....	374,900
	-----
TOTAL .....	\$477,000
	=====

</TABLE>

PRO FORMA ADJUSTMENTS

Adjustments to record amortization of intangibles in the unaudited pro forma condensed combined balance sheet and statements of operations, in thousands:

<TABLE>  
<CAPTION>

	Estimated useful life in years	Year ended December 31, 1999	Nine months ended September 30, 2000
	-----	-----	-----
<S>	<C>	<C>	<C>
(A) Amortization of intangibles:			
Assembled workforce	3	\$ 900	\$ 675
Acquired technology	3	2,800	2,100
Customer lists	3	5,133	3,850
Goodwill	4	93,725	70,294
		-----	-----
Total		\$102,558	\$76,919
		=====	=====

</TABLE>

PRO FORMA ADJUSTMENTS (CONTINUED)

(IN THOUSANDS EXCEPT PER SHARE DATA)

<TABLE>  
<CAPTION>

	Year ended December 31, 1999	Nine months ended September 30, 2000
	-----	-----
<S>	<C>	<C>
(B) Stock based compensation:		
To record stock based compensation related to 3,000,000 shares of Sonus common stock reserved for employee retention incentives based upon an estimated common stock price of \$40.88 per share, for purposes of the unaudited pro forma information. These shares are issuable to employees of TTI in equal installments on each of October 31, 2002, November 30, 2002, January 31, 2003 and February 28, 2003 who maintain employment each of such dates, and if TTI achieves certain business expansion and product development milestones.	\$61,320	\$45,990
To record amortization of prepaid compensation	6,896	5,172
	-----	-----

Total	\$68,216	\$51,162
	=====	=====
(C) To reverse TTI's merger related expenses	\$ --	\$ (150)
	=====	=====
(D) To reverse tax provision related to TTI	\$ (336)	\$ --
	=====	=====
		At September 30, 2000
		-----
(E) Preliminary allocation of purchase price:		
Assembled workforce		\$ 2,700
Acquired technology		8,400
Customer lists		15,400
Goodwill		374,900
		-----
Total goodwill and intangible assets		\$ 401,400
		=====
Deferred compensation (prepaid compensation related to unvested options)		\$ (22,600)
		=====
Accumulated deficit (in process research and development charge)		\$ (40,000)
		=====
(F) Exchange of all outstanding stock of TTI in exchange for 10,800,000 shares of Sonus common stock:		
Sonus common stock		\$ 11
Sonus capital in excess of par value		449,932
TTI redeemable common stock		(31,752)
TTI common stock		(1)
TTI capital in excess of par value		(7,742)
TTI accumulated deficit		35,204
TTI deferred compensation		7,348
(G) Payment of merger related fees and expenses		\$ (11,000)
Payment of note payable to bank		(5,000)
		-----
Total change in cash		\$ (16,000)
		=====

</TABLE>

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#### NET INCOME (LOSS) PER SHARE ON A PRO FORMA BASIS

The unaudited basic and diluted net income (loss) per share is based on the weighted average number of Sonus unrestricted common shares outstanding prior to the merger plus the 10,800,000 shares of Sonus common stock issued upon the closing of the merger, composed of the 9,600,000 shares issuable at the closing and the 1,200,000 indemnity escrow shares as if they were issued on the first day of the period. The unaudited pro forma basic and diluted net income (loss) per share reflects the conversion of all outstanding shares of Sonus Series A, B, C and D redeemable convertible preferred stock into an aggregate of 96,957,222 shares of common stock upon the consummation of the Sonus IPO in May 2000, as if such conversion occurred at the date of original issuance. Options outstanding and the shares to be issued under the Sonus Retention Plan have not been included in the computation of the basic and diluted net income (loss) per share for the periods reported because their effect would not be dilutive.

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