

Date: 05-29-03
Proposal: Update the Board on portfolio holding Sonus Networks.
Ticker: SONS
Current price: 4.20 (close 05-28-03)
Analyst: Charles Najda
Profile: Sonus Networks, Inc. is a provider of voice infrastructure products for the new public network. The Company's suite of voice infrastructure products includes the GSX9000 Open Services Switch, the Insignus Softswitch, and the Sonus Insight Management System. The Company's products, designed for deployment at the core of a service provider's network, reduce the cost to build and operate voice services compared to traditional alternatives.
 (From *Yahoo! Finance*)

The Numbers

Shares Outstanding	225.2 mln	Market Cap	\$918.8 mln
Mean Target Price 12 months	\$3.00	EPS Growth - 5 years	25.0%
P/book	15.58	P/sales	13.77
Gross Margins	61%	Net Margins	N/A
Cash	\$126.2 mln	Debt/Equity	0.26
EPS (03)	\$-0.08	EPS (04)	\$-0.03
Dividend	N/A	Cash Per-share	\$0.56

Future Opportunity

Company prospects.

Sonus has come back from the dead and further price appreciation will be driven by new contract announcements with wire line, wireless, and cable companies. After hitting a 52 week low of 0.18 it has surged to over 4 dollars and the momentum remains strong. The Blyth Fund has earned a return of over 1300% on its October 2002 purchase at \$0.29 and over 300% on its December 2002 purchase at \$1.04.

End of the bear market?

Hedge fund managers are starting to signal the end of a bear market, putting money to work as they turn bullish on equities after months of hiding behind cash. Formerly wary hedge fund managers, who had piled into cash after one of the most volatile markets in recent history, say the economic horizon is less cloudier and it's time to buy. "In one dramatic swing, European long/short equity manager Hugh Hendry at London's Odey Asset Management has moved from a cash position of as high as 90 percent in March to a net long position of 200 percent in his Eclectica Fund. Hendry, whose fund is up 10 percent year to date, said he currently did not have a single short." The fact that hedge funds are starting to give up on the bear mentality that made them a lot of money is a positive for Sonus and the market. If the market moves up, Sonus will trade higher with the market, but more aggressively than the market.

Technology lead.

CEO Ahmed won't speculate as to how long Sonus has before Cisco and Nortel get their acts together and come after him. (Lucent is woefully behind.) However, analysts and observers estimate that Sonus has a one to two year lead over its yet none existent competitors

Telcos, cable, and now wireless.

Sonus' soft switch enables wireless carriers to use internet to carry the long distance calls they offer for free to wireless subscribers. Traditionally they have to lease long distance carriers' networks to carry these calls. Now by installing GSX9000 and Insignus, they can bypass those networks by routing the voice traffic to the Internet, saving them a lot of money.

New Sonus Customers

Epana Networks.

Epana has deployed Sonus' packet voice infrastructure solutions to support the delivery of international and domestic prepaid calling services. Epana's voice over IP (VoIP) network is commercially operational and has been carrying voice traffic since September 2002. Epana provides prepaid services for wholesale and retail customers to over 200 countries worldwide.

Unefon.

Unefon chose Sonus Networks to deploy a next-generation packet voice network that will support access services, long distance voice and enhanced services. Unefon will implement Sonus' Open Services Architecture(TM) (OSA) and voice infrastructure solutions, including the GSX9000(TM) Open Services Switch, the Insignus(TM) Softswitch and the Sonus Insight(TM) Management System. Unefon is partially owned by AT&T Consumer.

China Netcom.

Last spring, China Netcom selected Sonus to provide infrastructure solutions for the development of China Netcom's nationwide packet voice network. China Netcom is deploying Sonus media gateway and softswitch solutions to support the delivery of end-to-end IP voice service over the carrier's broadband network, officials said. China Netcom will use the Sonus-based infrastructure to deliver a variety of IP based voice services to enterprise customers. China Netcom said it will initially install the Sonus systems in six cities throughout China: Beijing, Shanghai, Guangzhou, Dalian, Shenzhen and Nanjing.

Adoption Around the Corner

AT&T pushes towards IP voice.

Acting on a product strategy that it first revealed last fall, AT&T announced a new service partnering it with IP PBX vendors Cisco Systems Inc. and Avaya to offer a managed IP PBX service that will marry the PBXs to the AT&T IP network. For the new service, called AT&T Managed Internet Service with Voice over IP, AT&T will integrate the PBXs with its global network at the layer 3 level. The IP PBXs will signal directly to the AT&T softswitch, using SIP, enabling the PBXs to function almost as if they were elements in the AT&T network. The new service also marks a migration of AT&T's IP network from H.323 to SIP, and a switch to a new softswitch vendor (Sonus?) to support this migration. However, AT&T has yet to reveal which softswitch it is using for the service.

Verizon building fiber IP network.

In a presentation at last week's Lehman Brothers Network Conference, Paul Lacoutre, president of Verizon's Network Services, outlined the planned evolution of Verizon's network to a next generation architecture. Key elements of the company's optical transport network will continue to include SONET and DWDM, deployed in both ring and mesh topologies. The switching layer of Verizon's next generation network will use an IP core based on MPLS to support IP voice. Verizon's access network will encompass mass-market DSL; dedicated and shared fiber buildouts to enterprise customers; and new fiber builds to selected end customers. Enhanced DSL offerings will include static IP service, symmetrical DSL, wireless DSL, MSN8+DSL, and speed upgrades to 1.5 Mbps. Whether Verizon's new network will be Sonus powered remains to be seen. Although, a number of analysts already believe that Verizon is already using Sonus softswitches.

"Using an overlay network strategy, Verizon could deploy VOIP in 200 to 300 cities in 2004 if the technology develops as expected," says Lehman analyst Tim Luke. "This is among the most positive statements supporting VOIP that we have heard in a long time."

DT moves to solidify relationship with Sonus.

Last week's announcement that Sonus Networks is providing voice infrastructure solutions to the Technische Universitaet Berlin (TU Berlin) for deployment in the University's 'Beyond 3G' test bed has far reaching

implications with regard to Sonus' relationship with DT. The relationship until now was a close one but was with T-Systems, which is a kind of system integrator for DT. The other partners in the announced project are Deutsche Telekom and T-Mobile. Moreover, Fraunhofer FOKUS which has a close relationship with DT and does cutting edge research in next-gen networks is also a partner in the test bed project. The intercity connection is between Berlin and Bonn. Bonn used to be the capitol of Germany and many parts of the German government are still located in Bonn; furthermore, the headquarters of DT are also located in Bonn. It is my opinion that Sonus is now in bed with DT and T-Mobile and it is extremely likely that DT and T-Mobile will be future customers of Sonus products and services.

Cable deployment could be close.

Last week a Lehman research note mentioned that cable giant Cox's lead technology guy thought that VoIP only lowers costs by 8% for his firm. But over the last few weeks Cox is hiring or has hired... a Software Database Engineer (VOIP), with the following job description:

"1. Responsible for all telephone switch database translation changes associated with routing, networking, and trunking of calls. Special emphasis on Voice Over IP network database management including Call Management Servers, Gateway Controllers and Trunk gateways."

A good question you could ask yourself is why would Cox want to translate these databases? This notice doesn't necessarily mean that SONS already has a contract. It means that Cox intends to pursue VoIP. The solution with Juniper (who is providing router technology to Cox) is laying the track to make this happen, using a soft switch. This move by Cox contradicts their own 8% claim. Either they really want to save that 8% in costs, or they were low balling the cost savings figure (in public) in order to play hardball in negotiations with a soft switch vendor like Sonus. Either way I think that adoption by a cable company is closer than many think.

VoIP Equipment Market

The Death of the Legacy (Equipment).

In a survey of global wire line and wireless carriers, the Yankee Group found that almost all were dedicated to implementing packet-based architectures in their networks:

"The study produced comprehensive data on such topics as capital expenditure planning, endpoint preferences and plans for purchasing legacy TDM architectures. The primary drivers for implementing a packet-based network were cost savings; the promise of an ideal architecture for new, revenue-generating services; and the ability to provide previously unavailable services in an effort to take advantage of regulatory liberalizations or restrictions. **In addition, 43% of all wire line service providers surveyed said that they would not purchase a traditional Class 4 or Class 5 switch again.**"

Accelerated write-offs.

Bush's new tax plan, which passed the house and senate, effectively gives companies the ability to accelerate write-offs for new capital equipment purchases during a 3 year window. Telecommunications companies will have an incentive to purchase new equipment, because they will be able to depreciate more of that purchase price sooner, which could mean large tax savings with an improving economy.

Expansion in Asia.

Malaysian system integrator IBIL expects at least a 50% jump in revenue this year following its newly-formed partnership with US-based packet voice infrastructure products provider, Sonus Networks.

Institutional Investors

Stock Manipulation.

Often when a (or many) funds or inst. are getting in, the stock runs up too quickly during accumulation so they may drop a bogus rumor and pull the stock down to slow the run-up. The after hours trading the night before the secondary offering was announced is a good example of important market participants manipulating the stock. Sonus is only going in one direction but the people with the big money are trying their hardest to pick it up along the way.

Accumulating Shares.

Once 70% of Sonus was held by institutions and many of the funds held it during the bubble. They sold sons all they way down to 0.18 cents. They lost some good money (their clients money). One could argue that these firms loved being in the stock back then and now they are in love with being in it again. If you manage billions of dollars would you want to sit around and watch the biggest player for the next build out march up to 20 without being in?

Contrarian Indicator.

How convenient is it that Advent downgrades at Sonus at 2.80 and the stock runs up to 3.60? The firm downgrades the dominant player in carrier class soft switch market right before the tier 1 customers are to be announced. Moreover, many analysts kept their buy ratings on Sonus all the way down to 0.18 and didn't downgrade until the stock started to run up and recover.

Secondary Offering

Positive Business Signs.

The secondary offering does nothing but guarantee the longevity of Sonus, bolster its cash position, and put to rest any questions that a potential client may have about the liquidity or viability of this company in the long-term. Is it also possible that the tier 1 customers require that any major vendor they do business with has a balance sheet with 4 years or more of liquid assets (cash). Sounds crazy? But if you were the decision maker on a nationwide VoIP deployment, would you do it with a company that has a questionable cash position? Probably not. In other words, this secondary offering was probably done to satisfy at least one very large client.

The Customer Base





Financials

Earnings rebound.

Period Ending:	Mar 31, 2003	Dec 31, 2002	Sep 30, 2002	Jun 30, 2002
Total Revenue	\$16,019,000	\$12,660,000	\$7,445,000	\$21,295,000
Cost Of Revenue	\$5,430,000	\$6,298,000	\$4,747,000	\$9,948,000
Gross Profit	\$10,589,000	\$6,362,000	\$2,698,000	\$11,347,000
Net Income Applicable To Common Shares	(\$4,381,000)	(\$12,820,000)	(\$21,638,000)	(\$17,818,000)

Improving earnings and revenue outlook.

	This Quarter (Jun 03)	Next Quarter (Sep 03)	This Year (Dec 03)	Next Year (Dec 04)
EPS Trend				
Current	-0.02	-0.02	-0.08	-0.03
7 Days Ago	-0.02	-0.02	-0.08	-0.03
30 Days Ago	-0.04	-0.03	-0.15	-0.09
60 Days Ago	-0.04	-0.03	-0.15	-0.09
90 Days Ago	-0.04	-0.03	-0.16	-0.10
Revenue Estimates				
Avg Estimate	\$19M	\$20M	\$78M	\$99M
# of Analysts	8	6	9	9
Low Estimate	\$18M	\$18M	\$73M	\$85M
High Estimate	\$19M	\$22M	\$83M	\$109M

Management

Abstracts taken from corporate website.

Hassan Ahmed, Ph.D., President and Chief Executive Officer.

As President and Chief Executive Officer, Hassan Ahmed is responsible for the strategic direction and management of the company. Prior to joining Sonus in 1998, Dr. Ahmed was Executive Vice President and General Manager of Ascend Communications' Core Systems Division, which grew under his direction to a \$1 billion business. Before Ascend's acquisition of Cascade Communications, he served as Cascade's Chief Technology Officer. Previously, Dr. Ahmed was President and Founder of WaveAccess, a pioneer in high-speed wireless network products. Additionally, he has held the positions of Product Engineering Manager, Analog Devices, and Director, VSLI Systems, Motorola Codex. He was also an Associate Professor at the Graduate School of Management, Boston University. Dr. Ahmed holds a BSEE and MSAE from Carleton University and a Ph.D. in Electrical Engineering from Stanford University.

Rubin Gruber, Founder and Chairman.

Rubin Gruber is a well-known and highly successful entrepreneur, having founded four companies including Sonus. Prior to establishing Sonus, Gruber founded VideoServer, Inc. (now ezenia!), a leading provider of multimedia communications servers. Before VideoServer, Gruber served as Senior Vice President BBN Communications Corporation, where he introduced a new generation of packet-switching equipment in support of mission critical applications. Gruber also founded Davox, the leading supplier of outbound call-center systems and Cambridge Telecommunications (CTX), which was the first company to incorporate microprocessors in communications equipment and an early supplier of packet network access equipment. CTX was acquired by GTE and remains part of Sprint. Gruber is a member of the board of directors for the International Softswitch Consortium. He holds a B.Sc. from McGill University and an MA in mathematics from Wayne State University.

Mike Hluchyj, Founder and Chief Technology Officer.

As Founder and Chief Technology Officer of Sonus Networks, Mike Hluchyj is responsible for setting the technical direction of the company and promoting the company's continuous innovation. Before founding Sonus in 1997, he was Vice President and Chief Technology Officer at Summa Four (acquired by Cisco), a leading supplier of intelligent, programmable switches for use in carrier networks. Prior to this, Dr. Hluchyj was Director of Networking Research at Motorola Codex and on the technical staff at AT&T Bell Laboratories. Dr. Hluchyj is a Fellow of the IEEE and is widely published on subjects such as cell relay switching and traffic management in integrated networks. He is a frequent speaker at industry events and has been awarded 28 U.S. patents. He received his BS degree in Electrical Engineering from the University of Massachusetts at Amherst, and his Masters and Ph.D. degrees in Electrical Engineering from the Massachusetts Institute of Technology.

J. Michael O'Hara, Vice President of Marketing.

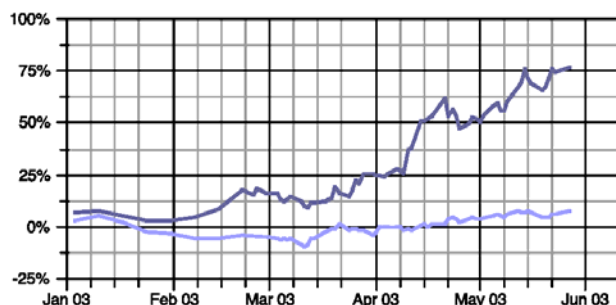
As Vice President of Marketing at Sonus Networks, Michael O'Hara is responsible for driving Sonus' marketing strategy and oversees all marketing functions, including product management and marketing communications. Before joining Sonus, O'Hara spent 15 years at Nortel Networks in a variety of management positions in marketing, sales, manufacturing and general operations. Most recently, O'Hara served as Vice President of Marketing at Nortel Networks. In that role, he had responsibility for Nortel's marketing and sales operations programs in Europe, the Middle East and Africa, directing functions such as public relations, advertising, government relations, analyst relations, trade shows, events, customer training, account marketing and geographic marketing. He holds an honors degree in Electrical and Electronic Engineering from the Queens University of Belfast.

Closing Commentary

Highest returning Blyth Fund purchase (ever).

The October 8th 2003 purchase of Sonus networks at \$0.29 produced the highest return the Blyth Fund has ever experienced for a single equity purchase. My initial October buy proposal was met with healthy skepticism by the board of directors. However, since fall quarter, Sonus has added a number of new customers, expanded its product line to target a new group of service providers, and is managing its cash and expenses well. The future looks bright for Sonus; the addition of two tier 1 customers will grow annual sales significantly.

2003 YTD Blyth Fund portfolio performance chart.



As of May 27, 2003 the Blyth Fund had a year-to-date portfolio gain of 77.13%. Much of that gain was due to the strong performance of Sonus during the first 5 months of this year. The S&P 500 was up 8.14% during the same time period.

Diligent following necessary.

I have great confidence in the Board of Directors following Sonus in a diligent and thoughtful manner after I graduate at the end of this quarter. Moreover, I feel that it is vitally important that the Board continues to follow the stock closely. Although Sonus' near term future appears to be a secure and revenues are on the rise, careful scrutiny is always warranted.

Future of Sonus in the Blyth portfolio.

Sonus is the portfolio's growth stock and I believe that the Fund should hold on to Sonus for the foreseeable future, 1 to 2 years. Although at the present time Sonus makes up 50% of the Fund's invested portfolio, once tax returns and other monies are included in the portfolio Sonus is only 20% of the Fund's total asset base. Moreover, it is important for the Fund to take a long term outlook with Sonus. The following humorous message board post is a response to a poster, who is concerned with the very short term outlook of Sonus.

"I won't sell until I see a reverse kitty-and-puppy pattern asserting itself. Also, my psychic reader says that Mercury and Mars aren't in the correct conjunction for selling at the moment. I have a tarot reading scheduled for tomorrow afternoon, though, so I'll keep you updated."

Investment roadmap.

A diligent, but long term mindset is necessary with Sonus Networks at present. As I graduate this year I believe that I leave the Fund with an equity (Sonus) whose strong upward movement will continue. In 1 to 2 years I anticipate Sonus trading in a range of 8 to 10 dollars; moreover I believe that this range is a conservative estimate.

On a personal note.

This is my last Blyth Fund proposal and today's gathering is the last Blyth Fund meeting that I will attend as a member. The Fund has been a great experience over the last few years. Moreover, I expect that the quality of the analysis that the members produce will continue to improve in the coming years.

Performance Charts

1 Year SONS Chart:

Note the 20x (2000%) rise from its 52 week low of 0.18, which occurred over the last seven months.



6 Month SONS Moving Average Chart:

Note how Sonus has risen above the 50, 100, and 200 day moving averages sequentially over the last six months.

