BLYTH FUND | SONS BUY PROPOSAL
By Charles Najda

Date:	11-25-02
Proposal:	Buy 3300 shares of SONS
Ticker:	SONS
Current price:	1.00 (close 11-22-02)
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	204.9 mln	**Market Cap**	$206.9 mln
Mean Target Price 12 months	$1.32	**EPS Growth - 5 years**	25.0%
P/book	3.15	**P/sales**	2.13
Gross Margins	55%	**Net Margins**	N/A
Cash	$92.1 mln	**Debt/Equity**	0.24
EPS (02)	$-0.27	**EPS (03)**	$-0.25
Dividend	N/A	**Cash Per-share**	$0.45

Reasons to Buy SONS:

- The Fund should increase its position in Sonus for two primary reasons.
- First, SONS recently scored a new contract with Interoute a European telecom with no debt. This contract win, although small, signals to the market that Sonus has staying power and its bankruptcy risk is not nearly as high as was once thought. Also, the NTT offload deal and new trials signals that major companies are buying Sonus equipment. This is important, because NTT would not buy equipment from Sonus if it thought the company would go bankrupt in a year.
- Second, Sonus appears to be building a strong base around one dollar. The stock rose rapidly after the Interoute news and topped out at over one dollar. Then it fell to about 70 cents, but recovered strongly to above a dollar during the week after the fall.
- The strong performance of the stock and high volume that marked the initial rise and later recovery suggest that there is real interest in the stock.
- It's important to point out that the stock rose on high volume before the Interoute announcement. This suggests that insiders are buying the stock and have a better understanding of the company's future than the public.
- In my October buy proposal I wrote, "A strong GDP number or a resolution of the Iraqi conflict would lead to a strong market rally. In that sort of an environment, battered down stocks like Sonus will experience large percentage gains." I believe that there is further room for the market to move upwards and at a minimum for Sonus to move upwards with the market.
- In my October buy proposal I also wrote, "I believe that there is ample opportunity for Sonus to rise to over a dollar (on speculation of a buyout)." Furthermore, I believe that further news with regard to a new contract could push Sonus to the 2 dollar range. At this point, with a short term 3-6 month time horizon, I believe that the risk associated with Sonus is well offset by the possible returns.
- Buying Sonus and selling Apple will raise the expected return of the Fund's portfolio. At the same time, if we think that the broader markets will move up in the coming months we would improve the Fund's return by moving out of AAPL with a beta of 1.7 to SONS with a beta of 5.25.

Valuable Technology:

- Sonus is a pioneer of VoP for cable systems, based on its PacketCable architecture. Thus Sonus' customer base is not limited to the incumbent baby bells and long distance providers, each of the cable companies are also potential Sonus customers.
- The movement to VoP networks for both data and phone service is almost inevitable and a

very cost effective move for the large telecommunications companies.

- Contrary to popular thought Voice-over-IP doesn't cause a delay in conversation. Moreover, voice quality is equal to or better than the PSTN (conventional voice infrastructure).

Strong and Growing Customer Base:

- NTT Communications of Japan (NTT Com) is now using Sonus' Open Services Architecture (OSA) and packet voice infrastructure solutions to offload modem-generated Internet traffic from its circuit-switched network, providing significant cost benefits to the Japanese carrier. More importantly, NTT Com has also begun a field trial of enterprise VoIP services using the Sonus platform, which could result in a major contract.
- Three weeks ago, Interoute, owner and operator of Europe's most advanced and densely connected fibre-optic network, chose Sonus to build out its next-generation voice network. The Sonus-based network will allow Interoute to provide enterprises and mobile service providers with enhanced voice services.
- In January, Sonus announced its first customer in China. China Netcom selected Sonus to provide infrastructure solutions for China Netcom's nationwide packet voice network, which will support both local access and long distance voice services.

Takeover Target:

- Sonus is still the market leader in VoP equipment. They have a real technological lead over their larger competitors. Currently Sonus has over half of the market for VoP solutions. In an improved economic environment, the ability to control over half of the market is certainly worth more than Sonus' current market capitalization.
- Lucent recently withdrew from the softswitch market, in which it competed with SONS. Lucent is laying off over 1000 employees, while SONS has only 593 employees.
- Lucent's withdrawal may be a harbinger of a possible buyout of Sonus. Instead of spending its own valuable capital to develop a product, LU can write off the softswitch group and purchase SONS. Lucent ends up spending less money and earns a tax write-off for any future earnings from the Sonus unit.
- Lucent's withdrawal also means that Sonus can increase its market share by wining over former Lucent customers. Lucent is the second largest player in the softswitch segment of the VoP market.
- In recent months there have also been rumors that CSCO was interested in purchasing Sonus.

Closing Thoughts:

- Increasing the Fund's position in Sonus will improve the composition of the Fund, by consolidating our holdings into the investment with greater upside potential.
- This proposal is still a speculative play that assumes that the market will continue to rally during the 4th quarter on macroeconomic and improving earnings news. SONS has a very high beta of 5.25. Sonus' beta has risen by one point in the last month, due to the recent 5x rise in the stock. If the S&P 500 rallies 20% during the last quarter of the year, SONS is likely to move up 100+ percent.
- Moreover, if Sonus announces a major contract or beats 4th quarter estimates by a wide margin, the stock price would likely rise above 2 dollars per share.
- If Sonus can trade above a dollar for 5 more days then there will be no immediate risk that the firm will get de-listed.
- Sonus is not in danger of bankruptcy in the immediate future. At the time of our purchase, seven months ago, the company had $125 million in cash. That means that Sonus is burning through about 10-15 million dollars each quarter.

1 Year SONS Chart:
Note the recent 5x rise from its 52 week low of 0.18.

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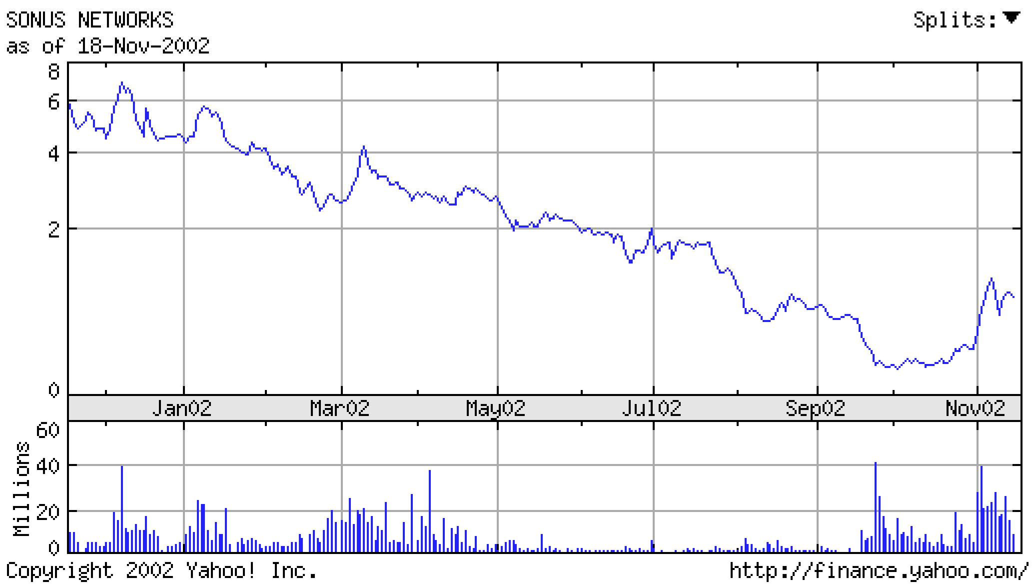

6 Month SONS Moving Average Chart:
Note how Sonus has risen above the 50 and 100 day moving averages recently. A move to 2 dollars would place Sonus above the 200 day moving average for the very first time.