Starent Networks, Corp.
Form 424B4
June 06, 2007

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Filed Pursuant to Rule 424(b)(4)
Registration No. 333-141092

10,534,841 Shares

Starent Networks, Corp.

Common Stock

This is an initial public offering of shares of common stock of Starent Networks, Corp.

Starent Networks is offering 9,000,000 of the shares to be sold in the offering. The selling stockholders identified in this prospectus, including our president and chief executive officer, are offering an additional 1,534,841 shares. Starent Networks will not receive any of the proceeds from the sale of the shares being sold by the selling stockholders.

Prior to this offering, there has been no public market for the common stock. Our common stock has been approved for listing on the Nasdaq Global Market under the symbol "STAR."

See "Risk Factors" on page 7 to read about factors you should consider before buying shares of common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per share	Total
Initial public offering price	$ 12.00	$ 126,418,092
Underwriting discount	$ 0.84	$ 8,849,266
Proceeds, before expenses, to Starent Networks	$ 11.16	$ 100,440,000
Proceeds, before expenses, to the selling stockholders	$ 11.16	$ 17,128,826

To the extent that the underwriters sell more than 10,534,841 shares of common stock, the underwriters have the option to purchase up to an additional 1,580,226 shares from Starent Networks at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on June 11, 2007.

Goldman, Sachs & Co. **Lehman Brothers**

JPMorgan **Thomas Weisel Partners LLC**

Prospectus dated June 5, 2007.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. You should read the following summary together with the more detailed information appearing in this prospectus, including our consolidated financial statements and related notes, and the risk factors beginning on page 7, before deciding whether to purchase shares of our common stock. Unless the context otherwise requires, we use the terms "Starent," "Starent Networks," "our company," "we," "us" and "our" in this prospectus to refer to Starent Networks, Corp. and its subsidiaries.

Starent Networks

Overview

Starent Networks is a leading provider of infrastructure hardware and software products and services that enable mobile operators to deliver multimedia services to their subscribers. We have created hardware and software products that provide network functions and services, including access from a wide range of radio networks to the operator's packet core network. A packet core network splits traffic into multiple pieces of data, or packets, that are routed over an Internet Protocol, or IP, network and enables mobile operators to deliver multimedia services. Our products and services also provide management of subscriber sessions moving between networks and application of billing and other session policies. Our products and services provide high performance and system intelligence by combining significant computing power, memory and traffic handling capabilities with a flexible, high availability operating system and other proprietary software. Our products integrate multiple network functions and services needed for the delivery of advanced multimedia services, such as video, Internet access, voice-over-IP, e-mail, mobile TV, photo sharing and gaming.

Mobile operators are aggressively deploying next-generation wireless networks, such as third generation, or 3G, networks, that are capable of delivering high quality, mobile multimedia services to subscribers. In deploying these new networks, mobile operators are seeking packet core network hardware and software that can deliver multimedia services with high performance and simplicity and provide high reliability. We have developed our multimedia core network platforms and our proprietary software specifically to address the needs of packet-based mobile networks. Our multimedia core network platforms consist of the ST16, which has been deployed since 2003, and our recently announced ST40, which we expect to be generally available in the third quarter of 2007.

We sell our hardware and software products to leading mobile operators around the world both directly and through OEMs, system integrators and distributors. We believe the deployment of our products by over 60 mobile operators in 25 countries including many of the world's largest mobile operators makes Starent Networks a leading provider of infrastructure products and services that enable mobile operators to deliver multimedia services to their subscribers. We became profitable in 2005, and in 2006 our revenues were $94.4 million and our net income was $3.6 million, including interest income of $2.3 million. For the quarter ended March 31, 2007, our revenues were $27.6 million and our net income was $2.3 million, including interest income of $708,000. As of March 31, 2007, we had an accumulated deficit of $103.2 million.

Industry Background

Mobile operators have been aggressively upgrading their networks for a variety of reasons, including in large part due to increasing mobile subscriber demand for a wide range of multimedia services. Several factors are accelerating the growth of data-rich multimedia traffic on mobile wireless networks, including continued growth in the number of mobile subscribers worldwide, an increasingly mobile and interconnected society in which information is accessible and communications are available all the time regardless of location, and a proliferation of mobile devices designed for multimedia services.

In order to deliver a high-quality subscriber experience in this multimedia environment, mobile operators require infrastructure hardware and software products that are able to identify and manage individual communications sessions, handle significant traffic and integrate services. The hardware and software must also allow mobile operators to simplify and easily upgrade their networks, deliver quality of service, reliability and availability and support multiple radio access technologies.

Historically, mobile operators seeking to address these challenges have been required to retrofit network infrastructure hardware and software originally designed for wireline networks. These products utilizing repurposed network switches, routers and off-the-shelf enterprise servers are unable to sufficiently satisfy the needs of mobile operators to deliver efficient and reliable multimedia services. While routers and network switches are capable of forwarding packets of information, they lack the integrated processing power, memory and software needed to examine individual packets and apply defined business policies and subscriber services to them. To address these shortcomings, mobile operators typically connect repurposed switches and routers with numerous enterprise servers in multi-element configurations. These repurposed products offer limited intelligence about subscriber sessions, can result in limited network performance and reliability and can be costly to operate and upgrade.

Our Products and Services

Our hardware and software products provide six key, integrated capabilities that create enhanced revenue opportunities and facilitate reduced costs for mobile operators:

Intelligence to shape the subscriber experience. Our products and services combine custom software with significant processing power and memory to conduct a detailed inspection of each subscriber session and to associate that session with a subscriber need, operator service requirement or operator business policy.

High performance. Our products are capable of handling increasing amounts of network traffic to support a large number of subscribers on one platform and provide high bandwidth and data processing rates for improved traffic capacity and flow. In addition, our products provide high call transaction rates, which enhance the ability of our products to handle increasing amounts of network traffic, reduce unwanted delays in network traffic and allow the subscriber to have quick access to network services.

Simple and flexible network architecture. Our products allow mobile operators to integrate a number of network functions and enhanced services into a single hardware platform. In addition to providing network functions such as access, management of subscriber sessions moving between networks and application of billing and other session policies, our platforms are also capable of integrating advanced services that are typically deployed out of line from the session stream elsewhere in the network, such as enhanced charging and billing, firewall protection, security and content filtering.

Reliability and redundancy. Our system architecture provides a high level of resiliency and protects the subscriber's experience because all of our platforms' system resources, including those used for redundancy, can be shared. Our platforms employ hardware redundancy as well as high-availability software techniques, such as session recovery, fault containment and state replication.

Support multiple radio access technologies. Our products are capable of supporting multiple radio access technologies, including CDMA and GSM/UMTS, which are the two principal radio access technologies in use today. This capability allows mobile operators to deliver a uniform service experience to subscribers from a single platform, simplifying the network and limiting operator costs.

Well positioned for future technology upgrades. While designed for use in today's mobile networks, our products are also readily upgradeable to respond to evolving mobile operator environments or requirements and new technologies. Our platforms can typically provide new network functions or enhanced services through a software upgrade.

Our Strategy

Our goal is to strengthen our leadership in the mobile network infrastructure market. Principal elements of our strategy include the following:

Extend our technological leadership. We believe we have market leading products and services today, and we will continue to invest in research and development to maintain our leadership position through the introduction of new products and enhancements to existing products.

Increase market penetration. As mobile operators continue to increase network coverage and capacity, as well as their service offerings, they create new sales opportunities for us. We intend to increase our market penetration of both CDMA and GSM/UMTS operators. We believe a significant opportunity for growth is from sales to GSM/UMTS operators as they continue to transition to high-bandwidth networks.

Expand into evolving markets. We plan to address new radio access network architectures and technologies and leverage our products' access independence the flexibility and power to deploy a single hardware platform across multiple access architectures and technologies.

Increase the number of features. We plan to continue to develop new features based on specific customer requests and anticipated market needs.

Expand our sales channels. We intend to expand our existing relationships with mobile operators, pursue new direct and OEM, system integrator and distributor relationships to sell our products and expand our direct sales force.

Continue to offer a high level of support. We believe one critical factor of our success has been our focused support and technical expertise. We intend to continue to offer a high level of customer support.

Risks Associated with Our Business

Our business is subject to numerous risks and uncertainties, as more fully described under "Risk Factors" beginning on page 7, which you should carefully consider prior to deciding whether to invest in our common stock. For example:

we compete in new and rapidly evolving markets and have a limited operating history, which makes it difficult to predict our future operating results;

our past operating results have fluctuated significantly, and likely will continue to fluctuate significantly, which makes it difficult to predict our operating results and could cause our operating results to fall below expectations;

we depend on a limited number of customers for a substantial portion of our revenues, and the loss of a key customer or any significant adverse change in the size or terms of orders from a key customer could significantly reduce our revenues;

we rely on a single line of products focused on a single market, and if the market for those products does not develop as we anticipate, our revenues may decline or fail to grow, which would adversely affect our operating results; and the market in which we compete is highly competitive and competitive pressures from existing and new companies may have a material adverse effect on our business.

Corporate Information

We were incorporated in Delaware in August 2000. Our principal executive offices are located at 30 International Place, Tewksbury, Massachusetts 01876, and our telephone number is (978) 851-1100. Our website address is www.starentnetworks.com. Information contained on our website is not incorporated by reference into this prospectus, and you should not consider information contained on our website to be part of this prospectus or in deciding whether to purchase shares of our common stock.

"Starent," "ST16," "ST40," the Starent Networks logo and other trademarks or service marks of Starent Networks appearing in this prospectus are the property of Starent Networks. This prospectus contains additional trade names, trademarks and service marks of other companies.

The Offering

Common stock offered by Starent Networks, Corp.	9,000,000 shares
Common stock offered by the selling stockholders	1,534,841 shares
Common stock to be outstanding after this offering	62,417,462 shares
Use of proceeds	We intend to use the net proceeds from this offering for working capital and other general corporate purposes, including the development of new products, sales and marketing activities and capital expenditures. We may use a portion of the proceeds for the acquisition of, or investment in, companies, technologies, products or assets that complement our business. We will not receive any proceeds from the shares sold by the selling stockholders. The selling stockholders include our president and chief executive officer. See "Use of Proceeds" for more information.
Risk Factors	You should read the "Risk Factors" section and other information included in this prospectus for a discussion of factors to consider carefully before deciding to invest in shares of our common stock.
Nasdaq Global Market symbol	"STAR"

The number of shares of our common stock to be outstanding after this offering is based on the number of shares of common stock outstanding as of March 31, 2007, and excludes:

- 7,548,235 shares of common stock issuable upon the exercise of stock options outstanding as of March 31, 2007, at a weighted average exercise price of $2.01 per share, of which options to purchase 2,472,110 shares of our common stock were exercisable as of March 31, 2007 with a weighted average exercise price of $1.06 per share; and
- 139,091 shares of common stock available for future issuance under our equity compensation plans as of March 31, 2007.

Except as otherwise noted, all information in this prospectus:

- *assumes no exercise by the underwriters of their over-allotment option;*
- *gives effect to the automatic conversion of all outstanding shares of our convertible preferred stock into 44,287,985 shares of our common stock upon the closing of this offering, comprised of an aggregate of 52,818,893 shares of Series A, Series C, Series D and Series E convertible preferred stock that will each convert into approximately 0.67 shares of common stock and 11,768,968 shares of Series B preferred stock that will each convert into approximately 0.77 shares of common stock;*
- *gives effect to a two-for-three reverse stock split of our common stock that was effected on May 1, 2007; and*
- *gives effect to the restatement of our certificate of incorporation and amendment and restatement of our bylaws prior to the closing of this offering.*

SUMMARY CONSOLIDATED FINANCIAL DATA

The following tables summarize the consolidated financial data for our business for the periods presented. You should read the following summary financial data in conjunction with "Selected Consolidated Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the financial statements and related notes, all included elsewhere in this prospectus.

	Year Ended December 31,			Three Months Ended March 31,	
	2004	**2005**	**2006**	**2006**	**2007**
				(unaudited)	
	(in thousands, except per share data)				
Statement of Operations Data:					
Revenues:					
Product	$ 29,453	$ 51,819	$ 81,061	$ 11,722	$ 24,452
Service	4,942	7,841	13,289	2,712	3,190
Total revenues	34,395	59,660	94,350	14,434	27,642
Cost of revenues:					
Product	12,633	12,285	25,640	3,893	4,438
Service	812	1,358	2,086	341	1,387
Total cost of revenues	13,445	13,643	27,726	4,234	5,825
Gross profit	20,950	46,017	66,624	10,200	21,817
Operating expenses:					
Research and development	13,303	18,107	25,980	3,642	10,066
Sales and marketing	18,445	19,785	30,311	5,160	7,069
General and administrative	3,185	7,352	8,515	1,516	2,844
Total operating expenses	34,933	45,244	64,806	10,318	19,979
Income (loss) from operations	(13,983)	773	1,818	(118)	1,838
Total other income, net	95	644	2,237	420	710
Income (loss) before income tax expense	(13,888)	1,417	4,055	302	2,548
Income tax expense	(160)	(513)	(413)	(50)	(243)
Net income (loss)	$ (14,048)	$ 904	$ 3,642	$ 252	$ 2,305
Accretion of redeemable convertible preferred stock	(6,266)	(7,349)	(7,988)	(1,997)	(1,997)
Net income (loss) applicable to common stockholders	$ (20,314)	$ (6,445)	$ (4,346)	$ (1,745)	$ 308
Net income (loss) per share applicable to common stockholders:					
Basic	$ (3.28)	$ (0.97)	$ (0.62)	$ (0.26)	$ 0.01
Diluted	$ (3.28)	$ (0.97)	$ (0.62)	$ (0.26)	$ 0.00

	Year Ended December 31,			Three Months Ended March 31,	
Weighted average shares used in computing net income (loss) per share applicable to common shareholders:					
Basic	6,197	6,642	7,026	6,746	7,719
Diluted	6,197	6,642	7,026	6,746	13,311
Pro forma net income (loss) per share (unaudited)(1):					
Basic			$ 0.07		$ 0.04
Diluted			$ 0.07		$ 0.04
Weighted average shares used in computing pro forma net income (loss) per share (unaudited):					
Basic			51,314		52,007
Diluted			54,706		57,599

(1) The pro forma net income (loss) per common share, basic and diluted, has been calculated assuming the conversion of all outstanding redeemable convertible preferred stock into common stock upon the closing of this offering and the elimination of the accretion of redeemable convertible preferred stock.

The pro forma balance sheet data give effect to the conversion of all outstanding shares of redeemable convertible preferred stock into common stock and the elimination of accretion of redeemable convertible preferred stock as of March 31, 2007. The pro forma as adjusted balance sheet data also give effect to our sale of 9,000,000 shares of common stock offered by this prospectus at the initial public offering price of $12.00 per share, after deducting the underwriting discount and estimated offering expenses payable by us.

	As of March 31, 2007		
	Actual	**Pro Forma**	**Pro Forma as Adjusted**
		(unaudited) (in thousands)	
Balance Sheet Data:			
Cash, cash equivalents and short-term investments	$ 50,242	$ 50,242	$ 148,886
Working capital	20,731	20,731	119,375
Total assets	100,267	100,267	198,911
Indebtedness			
Redeemable convertible preferred stock	132,267		
Total stockholders' equity (deficit)	(103,088)	29,179	127,823

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RISK FACTORS

An investment in our common stock involves a high degree of risk. In deciding whether to invest, you should carefully consider the following risk factors. Any of the following risks could have a material adverse effect on our business, financial condition, results of operations or prospects and cause the value of our common stock to decline, which could cause you to lose all or part of your investment. When determining whether to invest, you should also refer to the other information in this prospectus, including the financial statements and related notes.

Risks Related to Our Business and Industry

We compete in new and rapidly evolving markets and have a limited operating history, which makes it difficult to predict our future operating results.

We were incorporated in August 2000, and deployed our first commercial product in the first quarter of 2003. We have a limited operating history in an industry characterized by rapid technological change, changing customer needs, evolving industry standards and frequent introductions of new products and services. We believe our limited operating history and the characteristics of our industry make it difficult to forecast our future operating results. You should consider and evaluate our prospects in light of risks faced by companies such as ours, which include challenges in accurate financial planning as a result of limited historical data and the uncertainties resulting from a relatively limited time period in which to implement and evaluate our business strategies, as compared to companies with longer operating histories.

Our past operating results have fluctuated significantly, and likely will continue to fluctuate significantly, which makes it difficult to predict our operating results and could cause our operating results to fall below expectations.

Our operating results have historically fluctuated significantly from period to period and we expect our operating results to continue to fluctuate due to a variety of factors, many of which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful. You should not rely on our past results as an indication of our future performance. If our revenues or operating results fall below the expectations of investors or securities analysts or below any guidance we may provide to the market, the price of our common stock could decline.

In addition to other risk factors listed in this "Risk Factors" section, factors that may affect our operating results include:

- fluctuations in demand, sales cycles and prices for our products and services;
- reductions in customers' budgets for mobile network infrastructure purchases and delays in their purchasing decisions;
- the timing of recognizing revenue in any given period as a result of software revenue recognition rules;
- the sale of our products in the timeframes we anticipate, including the number and size of orders in each period;
- the level of our customer concentration and our ability to generate purchases in any particular period from large customers;
- our ability to develop, introduce and ship in a timely manner new products and product enhancements that meet customer requirements;
- the timing of product releases or upgrades by us or by our competitors;

any significant changes in the competitive dynamics of our markets, including new entrants or substantial discounting of products;

our ability to control costs, including our operating expenses and the costs of the components we purchase; and

general economic conditions in our domestic and international markets.

We depend on a limited number of customers for a substantial portion of our revenues. The loss of a key customer or any significant adverse change in the size or terms of orders from a key customer could significantly reduce our revenues.

We derive a substantial portion of our revenues from a limited number of customers partly due to the nature of the mobile communications industry. During any given fiscal period, a small number of customers may account for a significant percentage of our revenues. In each of 2004, 2005 and 2006 and the first three months of 2007, we derived more than 90% of our revenues from our top five customers. In 2004, Verizon Wireless represented more than 40% of our revenues and Samsung Electronics Co., Ltd. and ITOCHU Techno-Solutions Corporation, also known as CTC, each represented more than 20%. In 2005, Verizon Wireless represented 40% of our revenues and CTC and Samsung each represented more than 20%. In 2006, we derived more than 40% of our revenues from our CDMA OEM relationship with Nortel Networks, of which more than half was related to Sprint Nextel, and more than 30% of our revenues from Verizon Wireless. In the first three months of 2007, Verizon Wireless represented approximately 60% of our revenues and Samsung Electronics represented approximately 20%. We terminated our OEM relationships with Nortel Networks in December 2006. See "We recently terminated our OEM relationships with Nortel Networks. If we are unable to establish strong relationships with the mobile operators formerly serviced by Nortel Networks under our CDMA agreement or if we are unable to resolve a dispute with Nortel Networks relating to the termination of our GSM/UMTS agreement, our business will be harmed," for more information.

We do not have long-term volume purchase contracts with our customers or other commitments that ensure future sales of our products to existing customers. The loss of any key customer, or our inability to generate anticipated revenue from them, would significantly and adversely affect our business, financial condition and results of operations. In addition, a change in the timing or size of a purchase by any one of our key customers can result in significant variations in our revenue and operating results from period to period. Our operating results for the foreseeable future will continue to depend on our ability to effect sales to a small number of customers and any revenue growth will depend on our success selling additional products to our large customers and expanding our customer base to include additional customers that deploy our products in large-scale networks serving significant numbers of subscribers.

Moreover, many of our key customers are large mobile operators that have substantial purchasing power and leverage in negotiating contractual arrangements with us. These customers may require us to agree to terms and conditions that could result in increased costs and decreased revenues and could adversely affect our operating results.

We rely on a single line of products focused on a single market. If the market for those products does not develop as we anticipate, our revenues may decline or fail to grow, which would adversely affect our operating results.

We derive, and expect to continue to derive, all of our revenues from a single line of products that provide network functions and services to mobile operators' packet core networks. The market for our products is relatively new and still evolving, and it is uncertain whether our products will achieve and sustain high levels of demand and market acceptance. Our success will depend to a substantial extent on the willingness of mobile operators to continue to implement packet-based, multimedia network infrastructure. Factors that could impair the rate of growth of multimedia networks include:

- lower than anticipated demand by subscribers for multimedia services;
- budgetary constraints of mobile operators;
- uncertainties on the part of mobile operators as to the particular 3G or 4G access technologies they select for deployment in their networks; and
- delays in the development or availability of all the network elements necessary for the mobile operator to deploy its next-generation multimedia network.

If mobile operators do not continue to implement packet core networks, the market for our products may not continue to develop or may develop more slowly than we expect, either of which would significantly adversely affect our revenues and profitability.

If our new platform, the ST40, does not achieve widespread market acceptance, our operating results will suffer.

We recently announced our ST40 platform, which we expect will be generally available in the third quarter of 2007. We expect to begin recording revenues from shipments of the ST40 in the fourth quarter of 2007, and a significant portion of our anticipated revenues in the fourth quarter of 2007 and beyond are expected to be generated from sales of the ST40. Our future sales and operating results will depend, to a significant extent, on the successful introduction and marketing of the ST40. In order to achieve market penetration for the ST40, we may be required to incur additional expenses in marketing and sales in advance of the realization of actual sales. The ST40 is not yet generally available for sale to customers and, once it becomes generally available, there can be no assurance that the ST40 will achieve widespread acceptance in the market. If we incur delays in introducing the ST40 or customer testing and verification takes longer than anticipated, the ST40 does not achieve our planned levels of sales or the ST40 does not achieve performance specifications, our operating results will suffer and our competitive position could be impaired. Also, some customers may delay orders for the ST16 as a result of the anticipated availability of the ST40 and any such delays could increase fluctuations in our quarterly operating results.

The market in which we compete is highly competitive and competitive pressures from existing and new companies may have a material adverse effect on our business, revenues, growth rates and market share.

We compete in a highly competitive industry that is influenced by many factors, including customer demands for:

- reliable, high performance products;
- system ability to handle increasing amounts of network traffic and service integration capabilities;
- system intelligence;
- breadth of network interoperability, access independence and standards support;
- high levels of customer support and customer interaction; and
- competitive pricing.

We expect competition in the mobile network infrastructure industry to intensify significantly in the future. Other companies may introduce new products in the same markets we serve or intend

to enter. This competition could result in increased pricing pressure, reduced profit margins, increased sales and marketing expenses and failure to increase, or the loss of, market share, any of which would likely seriously harm our business, operating results or financial condition.

Competitive products may in the future have better performance, lower prices and broader acceptance than our products. Our primary competitors include Cisco Systems, Inc., LM Ericsson Telephone Co., Nokia Corporation and UTStarcom, Inc., each of which has a longer operating history, greater name recognition, a larger customer base and significantly greater financial, technical, sales, marketing and other resources than we do. Potential customers may prefer to purchase from their existing suppliers rather than a new supplier regardless of product performance or features. In addition, many of our competitors have a broader range of products and may be able to offer concessions to potential customers on bundled purchases that we are not able to match because we currently offer only a single line of products. We also face competition from a number of companies with more limited market share generally or by geography and newer market entrants.

If our market continues to develop and expand, we could face increased competition from other established companies, as well as emerging companies. For example, OEMs, system integrators and distributors currently selling our products could market products and services that compete with our products and services. In addition, some of our competitors have made acquisitions or entered into partnerships or other strategic relationships with one another to offer a more comprehensive solution than they individually had offered. We expect this trend to continue as companies attempt to strengthen or maintain their market positions in an evolving industry and as companies enter into partnerships, or are acquired. Many of the companies driving this consolidation trend have significantly greater financial, technical and other resources than we do and are better positioned to acquire and offer complementary products and technologies. The companies resulting from these possible consolidations may create more compelling product offerings and be able to offer greater pricing flexibility, making it more difficult for us to compete effectively, including on the basis of price, sales and marketing programs, technology or product functionality. Continued industry consolidation may adversely impact customers' perceptions of the viability of smaller and even medium-sized technology companies and consequently customers' willingness to purchase from such companies. These pressures could materially adversely affect our business, operating results and financial condition.

Our sales cycles can be long and unpredictable, and our sales efforts require considerable time and expense.

Our sales cycles typically are long and unpredictable, and our sales efforts require considerable time and expense. Our sales efforts involve educating our customers about the use and benefit of our products, including their technical capabilities and potential cost savings. Customers typically undertake a significant evaluation process before making a purchase, in some cases over twelve months. We spend substantial time and resources in our sales efforts without any assurance that our efforts will produce any sales. In addition, product purchases are frequently subject to budget constraints, multiple approvals, and unplanned administrative, processing and other delays. Our long sales cycle may cause our revenues and operating results to fluctuate significantly.

Demand for our products depends on the rate that mobile operators expand and enhance their mobile networks in order to provide multimedia services.

Our future success as a provider of network infrastructure products and services for mobile operators ultimately depends on the continued growth of the mobile communications industry and, in particular, the continued deployment and expansion of mobile multimedia services. Increased demand by mobile subscribers for voice communications and multimedia services delivered over mobile network systems will be necessary to justify capital expenditure commitments by mobile operators to invest in the improvement and expansion of their networks. Demand for multimedia services might not continue to increase if there is limited availability or market acceptance of mobile devices designed for such services, the multimedia content offered through mobile networks does not attract widespread interest or the quality of service available through mobile networks does not meet customer expectations. If long-term expectations for mobile multimedia services are not realized or do not support a sustainable business model, operators may not commit significant capital expenditures to upgrade their networks to provide these services, the demand for our products and services will decrease, and we may not be able to sustain or increase our levels of revenues or profitability in the future.

A significant portion of our future revenues depends on our ability to further penetrate the GSM/UMTS market and our failure to do so could significantly interfere with our future growth.

The two principal radio access interfaces in use today for mobile communications are Code Division Multiple Access, or CDMA, and Global System for Mobile Communications/Universal Mobile Telecommunications System, or GSM/UMTS. To date, we have achieved our highest number of deployments in the CDMA market, which has transitioned faster to high-bandwidth networks. However, significantly more operators worldwide currently utilize GSM/UMTS than CDMA technologies. In order to continue our growth, we believe it is important that we continue to expand into the GSM/UMTS market. To date, we have established a relationship with a major GSM/UMTS operator, and we intend to devote significant sales and marketing resources to further penetrate the GSM/UMTS market. If GSM/UMTS operators do not transition or delay their transition to high-bandwidth networks, or if we are unable to establish relationships with additional GSM/UMTS operators, we may not be able to grow our business as expected and our results of operations will be adversely affected.

We rely on OEMs, system integrators and distributors to sell some of our products, and our failure to develop and manage our distribution channels could adversely affect our business.

For our sales to mobile operators, we rely in part on establishing and maintaining successful relationships with original equipment manufacturers, or OEMs, system integrators and distributors. A significant amount of our revenues is derived through these indirect sales. Accordingly, our revenues depend in large part on the effective performance of these distribution relationships. By relying on these indirect sales channels we may have less contact with the end users of our products, thereby potentially making it more difficult for us to establish brand awareness, ensure proper delivery and installation of our products, service ongoing customer requirements and respond to evolving customer needs. Developing relationships with qualified OEMs, system integrators and distributors and training them in our technology and product offerings requires significant time and resources. In order to develop and expand our distribution channels, we must continue to scale and improve our processes and procedures that support our OEM, system integrator and distributor relationships, including investment in systems and training. We have no minimum purchase commitments with any of our OEMs, system integrators or distributors, and our contracts with them do not prohibit them from offering products or services that compete with ours. Our competitors may be effective in providing incentives to existing and potential OEMs, system integrators and distributors to favor their products or to prevent or reduce sales of our products. Our OEMs, system integrators and distributors may choose not to offer our products exclusively or at all. Our failure to establish and maintain successful relationships with our OEMs, system integrators and distributors would likely materially adversely affect our business, operating results and financial condition.

We recently terminated our OEM relationships with Nortel Networks. If we are unable to establish strong relationships with the mobile operators formerly serviced by Nortel Networks under our CDMA agreement or if we are unable to resolve a dispute with Nortel Networks relating to the termination of our GSM/UMTS agreement, our business will be harmed.

We had two OEM agreements with Nortel Networks, one relating to the CDMA market and one relating to the GSM/UMTS market. We terminated the agreement relating to the CDMA market effective March 2007 because we were no longer strategically aligned with Nortel Networks on future packet core products for mobile operators and to allow specific major mobile operators to purchase directly from us. Sales to Nortel Networks, all of which were made under the CDMA agreement, accounted for more than 40% of our revenues in 2006. Nortel Networks serviced a significant number of mobile operators under this agreement in 2006, the largest of which, Sprint Nextel, accounted for over 50% of our sales to Nortel Networks and the largest 10 of which accounted for over 80% of our sales to Nortel Networks. Although Nortel Networks has acknowledged our right to terminate the CDMA agreement, under the terms of the agreement Nortel Networks has a right to continue to purchase our CDMA products for delivery through December 2008. The termination of the CDMA agreement could disrupt our relationships with CDMA mobile operators formerly serviced by Nortel Networks. We are currently seeking to establish direct sales relationships with some of the CDMA operators formerly serviced by Nortel Networks, including Sprint Nextel, and are currently exploring a new reseller relationship with Nortel Networks to continue to service other CDMA operators. Our business will be harmed if we are unable to establish a direct relationship with Sprint Nextel, or if we are unable to directly or indirectly continue selling our products to the other CDMA operators formerly serviced by Nortel Networks. In addition, our business may be adversely affected if we are unable to enter into a new CDMA reseller relationship with Nortel Networks.

We also terminated the agreement relating to the GSM/UMTS market effective December 2006 because there was a lack of strategic alignment on future packet core products for mobile operators between us and Nortel Networks and because there had been no sales of our products under that agreement. Although we believe we had valid grounds to terminate the GSM/UMTS agreement, Nortel Networks has disputed our right to terminate that agreement. The agreement contains provisions granting Nortel Networks the exclusive rights to sell our products to specified GSM/UMTS operators until May 2009. If we are unable to resolve the dispute regarding our termination of the GSM/UMTS agreement, Nortel Networks could seek to enjoin us from selling our products and associated services directly to these specified GSM/UMTS operators, seek indemnification for damages under the agreement and/or seek payment of commissions for sales we make to these specified GSM/UMTS operators. Depending on our sales to these specified operators, the amount of damages or commissions sought may be substantial. The growth of our business may be limited if we are enjoined from or otherwise unable to establish direct or indirect sales relationships with these GSM/UMTS mobile operators. We are currently exploring a new reseller relationship with Nortel Networks to service GSM/UMTS operators. The growth of our business may be limited if we are unable to enter into a new GSM/UMTS reseller relationship with Nortel Networks.

We have a significant accumulated deficit, and we may not be able to maintain profitability.

Although we were profitable in 2005 and 2006 and for the three months ended March 31, 2007, we incurred net losses for the preceding three years. Our net losses were approximately $25.8 million in 2002, $26.4 million in 2003 and $14.0 million in 2004. As a result of our net losses, we had an accumulated deficit of $103.2 million as of March 31, 2007. We will need to generate significant revenues and limit our operating expenses and other expenditures to maintain profitability, and we cannot be sure that we will remain profitable for any substantial period of time. If we are unable to remain profitable, the market price of our common stock could decline.

If network functions and services similar to those offered by our products are incorporated into existing or new mobile network infrastructure products, demand by mobile operators for our products may diminish.

Mobile network infrastructures are continually evolving with changing industry standards and the introduction of new technologies and network elements. Network functions and services provided by our products located on the packet core network may be provided by different network elements within these networks. Other providers of mobile network infrastructure products may add network functions and services provided by our products to their existing products or offer new products with similar characteristics for different parts of the network infrastructure.

The inclusion of, or the announcement of an intent to include, functionality and services perceived to be similar to those offered by our products in competitor products within or outside the packet core network could have an adverse effect on our ability to market and sell our products. Furthermore, even if the network functions and services offered by our competitors are more limited than those provided by our products, a significant number of customers may elect to accept limited functionality or services in lieu of adding our products to their network. The adoption of these competitive products or different approaches to their network infrastructure by mobile operators could have an adverse effect on our business, operating results and financial condition.

The applications of existing or future accounting standards could result in significant fluctuations in our operating results.

We recognize our product software license revenue in accordance with AICPA Statement of Position, or SOP, 97-2, *Software Revenue Recognition*, and related amendments and interpretations and SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions*. Under these accounting standards, even if we deliver products to, and collect cash from, a customer in a given fiscal period, we may be required to defer recognizing revenue from the sale of such product until a future period when all the conditions necessary for revenue recognition have been satisfied. Conditions that can cause delays in revenue recognition include software arrangements that have undelivered elements for which we have not yet established vendor specific objective evidence of fair value; requirements that we deliver services for significant enhancements or modifications to customize our software for a particular customer; or material customer acceptance criteria. Our customer contracts typically include one or more of these types of conditions. Therefore, we often must defer revenue recognition for a period of time after our products are delivered and billed to a customer, and such deferral may extend over one or more fiscal quarters. The period of deferral, if any, depends on the specific terms and conditions of each customer contract, and therefore it is difficult for us to predict with accuracy at the beginning of any fiscal period the amount of revenues that we will be able to recognize from anticipated customer shipments in that period. Moreover, any changes in interpretations and guidance as to SOP 97-2 could have a significant effect on our reported financial results.

We may have difficulty acquiring new customers due to the high costs of switching mobile network infrastructure providers or equipment.

Mobile network operators typically make substantial investments when deploying a mobile network infrastructure. Once a mobile network operator has deployed a mobile network infrastructure for a particular portion of their network, it is often difficult and costly to switch to another vendor's infrastructure. Unless we are able to persuasively demonstrate that our products offer performance, functionality or cost advantages that materially outweigh a customer's expense of switching from a competitor's product, it will be difficult for us to generate sales once that competitor's equipment has been deployed. Accordingly, if a customer has already deployed a competitor's product for their network infrastructure, it may be difficult for us to sell our products to that customer.

Our ability to sell our products is highly dependent on the quality of our support and services offerings, and our failure to offer high quality support and services would have a material adverse effect on our sales and results of operations.

Once our products are deployed within our customers' networks, our customers depend on our support organization to resolve issues relating to our products. A high level of support is critical for the successful marketing and sale of our products and future enhancements. If we, or our OEMs, system integrators or distributors, do not effectively assist our customers in deploying our products, help our customers quickly resolve post-deployment issues, and provide effective ongoing support, it would adversely affect our ability to sell our products to existing customers and could harm our reputation with potential customers. In addition, as we expand our operations internationally, our support organization will face additional challenges, including those associated with delivering support, training and documentation in languages other than English. As a result, our failure to maintain high quality support and services could have a material adverse effect on our business, operating results and financial condition.

The mobile network infrastructure industry is, and likely will continue to be, characterized by rapid technological changes in networks and standards, which will require us to develop new products and product enhancements, and could render our existing products obsolete.

Mobile operators have been aggressively upgrading their networks, and new industry standards for access technologies, such as third generation, or 3G, and more advanced fourth generation, or 4G, technologies continue to evolve. Continuing technological changes in the mobile communications industry and in the mobile network infrastructure industry could undermine our competitive position or make our products obsolete, either generally or for particular types of services. Our future success will depend upon our ability to accurately predict and respond to new technology standards. We must develop and introduce a variety of new capabilities and enhancements to our existing product offerings, as well as introduce new product offerings, to address the changing standards and technological needs of the network infrastructure market. A failure to accurately predict and respond to evolving technologies, to introduce on a timely basis new products and enhancements in response to evolving technologies and standards, or to address changing needs in our current markets or expand into new markets may cause existing and potential customers to forego purchases of our products or purchase from our competitors. The introduction of new products embodying new technologies or the emergence of new industry standards could render our existing products uncompetitive from a pricing standpoint, obsolete or unmarketable.

Our products are complex and may take longer to develop than anticipated and we may not recognize revenues from new products or product enhancements until after we have incurred significant development costs.

Some of our products must be tailored to meet customer specifications. As a result, we often develop new features and enhancements to our products. These product enhancements often take substantial time to develop because of their complexity and because customer specifications sometimes change during the development cycle. We often do not recognize revenue from our new products or enhancements until we have incurred significant development costs, and our operating results will suffer if sales of new products or enhancements fail to meet our expectations.

There is no assurance that our research and development investments will lead to successful new products or enhancements.

We will continue to invest in research and development for the introduction of new products and enhancements to existing products designed to improve the capacity, data processing rates and features of our products and services. We must also continue to develop new features and functionality for our products based on specific customer requests and anticipated market needs. However, research and development in the mobile network infrastructure industry is complex, expensive and subject to uncertainty. In 2005 and 2006, our research and development expenses were $18.1 million, or approximately 30% of our total revenues, and $26.0 million, or approximately 28% of our total revenues, respectively; and for the quarter ended March 31, 2007 these expenses were $10.1 million, or approximately 36% of our total revenues. We believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain our competitive position. If we continue to expend a significant amount of resources on research and development and our efforts do not lead to the successful introduction of products or product enhancements that are competitive in the marketplace, there could be a material adverse effect on our business, operating results, financial condition and market share. We may not be able to anticipate market needs and develop products and product enhancements that meet those needs, and any new products or product enhancements that we introduce may not achieve any significant degree of market acceptance.

If our products do not interoperate with our customers' networks, installations will be delayed or cancelled, which would harm our business.

Our products must interoperate with our customers' existing networks, which often have different specifications, utilize multiple protocol standards and products from multiple vendors, and contain multiple generations of products that have been added over time. If we find errors in the existing software or defects in the hardware used in our customers' networks or problematic network configurations or settings, as we have in the past, we may have to modify our software or hardware so that our products will interoperate with our customers' networks. This could cause longer installation times for our products or order cancellations and could harm our relationship with existing and future customers, any of which would adversely affect our business, operating results and financial condition.

In addition, our customers may require that we demonstrate that our products interoperate with network elements offered by our competitors, and we may need our competitors' cooperation to conduct such testing and validation. Any unwillingness of our competitors to cooperate with us in performing these interoperability tests or our inability to demonstrate interoperability would likely have an adverse effect on our ability to market our products.

Our products are highly technical and may contain undetected software or hardware errors, which could cause harm to our reputation and adversely affect our business.

Our products are highly technical and complex. When deployed, they are critical to the mobile operator networks. Our products have contained and may contain undetected errors, defects or security vulnerabilities. Some errors in our products may only be discovered after a product has been installed and used by mobile operators. Any errors, defects or security vulnerabilities discovered in our products after commercial release could result in loss of revenues or delay in revenue recognition, loss of customers and increased service and warranty cost, any of which could adversely affect our business, operating results and financial condition. In addition, we could face claims for product liability, tort or breach of warranty, including claims relating to changes to our products made by our OEMs, system integrators or distributors. Our contracts with customers generally contain provisions relating to warranty disclaimers and liability limitations, which may be ineffective. Defending a lawsuit, regardless of its merit, is costly and may divert management's attention away from the business and adversely affect the market's perception of us and our products. In addition, if our business liability insurance coverage is inadequate or future coverage is unavailable on acceptable terms or at all, our operating results and financial condition could be adversely impacted.

We are susceptible to shortages or price fluctuations in our supply chain. Any shortages or price fluctuations in components used in our products could delay shipment of our products, which could materially adversely affect our business.

Shortages in components that we use in our products are possible and our ability to predict the availability of such components may be limited. Some of these components are available only from single or limited sources of supply. The process of qualifying alternate sources for components, if available at all, may be time consuming, difficult and costly. In addition, the lead times associated with certain components are lengthy and preclude rapid changes in quantity requirements and delivery schedules. Any growth in our business or the economy is likely to create greater pressures on us and our suppliers to project overall component demand accurately and to establish appropriate component inventory levels. In addition, increased demand by third parties for the components we use in our products may lead to decreased availability and higher prices for those components. We carry very little inventory of our products and product components, and we rely on our suppliers to deliver necessary components to our contract manufacturer in a timely manner based on forecasts we provide. We generally rely on purchase orders rather than long-term contracts with our suppliers. As a result, even if available, we may not be able to secure sufficient components at reasonable prices or of acceptable quality to build products in a timely manner, which would seriously impact our ability to deliver products to our customers, and our business, operating results and financial condition would be adversely affected.

We depend on a single contract manufacturer with whom we do not have a long-term supply contract, and changes to this relationship may result in delays or disruptions that could harm our business.

We depend on Plexus Corp., an independent contract manufacturer, to manufacture and assemble our products. We rely on purchase orders with our contract manufacturer and do not have long-term supply arrangements in place. As a result, our contract manu