

# Q3 2009 Results

## TEKELEC UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS<sup>(1)</sup>

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
(Thousands, except per share data)				
<b>Revenues</b>	\$ 114,914	\$ 105,996	\$ 345,755	\$ 340,661
<b>Cost of sales:</b>				
Cost of goods sold	37,064	33,775	113,777	116,113
Amortization of purchased technology	1,567	587	4,599	1,761
Total cost of sales	<u>38,631</u>	<u>34,362</u>	<u>118,376</u>	<u>117,874</u>
Gross profit	<u>76,283</u>	<u>71,634</u>	<u>227,379</u>	<u>222,787</u>
<b>Operating expenses:</b>				
Research and development	24,200	25,082	75,603	75,706
Sales and marketing	17,168	18,159	51,574	55,269
General and administrative	13,148	13,272	40,288	40,477
Restructuring and other	-	-	-	243
Acquired in-process research and development	-	-	-	2,690
Amortization of intangible assets	327	109	960	327
Total operating expenses	<u>54,843</u>	<u>56,622</u>	<u>168,425</u>	<u>174,712</u>
Income from operations	<u>21,440</u>	<u>15,012</u>	<u>58,954</u>	<u>48,075</u>
<b>Other income (expense), net:</b>				
Interest income	282	1,749	916	7,325
Interest expense	(67)	(9)	(179)	(1,920)
Impairment of investment in privately-held company	(10,829)	-	(13,587)	-
Loss on sale of investments	-	-	-	(2)
Unrealized gain on ARS portfolio and Put right, net	288	-	1,723	-
Other, net	(340)	(2,193)	(2,160)	(3,699)
Total other income (expense), net	<u>(10,666)</u>	<u>(453)</u>	<u>(13,287)</u>	<u>1,704</u>
Income from continuing operations before provision for income taxes	10,774	14,559	45,667	49,779
Provision for income taxes	1,373	5,941	14,148	13,980
<b>Income from continuing operations</b>	<u>9,401</u>	<u>8,618</u>	<u>31,519</u>	<u>35,799</u>
<b>Income from discontinued operations, net of taxes</b>	<u>-</u>	<u>3,755</u>	<u>-</u>	<u>5,373</u>
<b>Net income</b>	<u>\$ 9,401</u>	<u>\$ 12,373</u>	<u>\$ 31,519</u>	<u>\$ 41,172</u>
<b>Earnings per share from continuing operations:</b>				
Basic	\$ 0.14	\$ 0.13	\$ 0.47	\$ 0.54
Diluted	0.14	0.13	0.47	0.52
<b>Earnings per share from discontinued operations:</b>				
Basic	\$ -	\$ 0.06	\$ -	\$ 0.08
Diluted	-	0.06	-	0.08
<b>Earnings per share:</b>				
Basic	\$ 0.14	\$ 0.19	\$ 0.47	\$ 0.62
Diluted	0.14	0.19	0.47	0.60
<b>Weighted average number of shares outstanding-continuing operations:</b>				
Basic	67,215	65,961	66,748	66,372
Diluted	68,022	66,763	67,465	70,972
<b>Weighted average number of shares outstanding:</b>				
Basic	67,215	65,961	66,748	66,372
Diluted	68,022	66,763	67,465	70,972

(1) We operate under a thirteen-week calendar quarter. For financial statement presentation purposes, the reporting periods are referred to as ended on the last day of the calendar quarter. The accompanying Unaudited Condensed Consolidated Statements of Operations are for the thirteen and thirty-nine weeks ended October 2, 2009 and September 26, 2008.

Q3 2009 Results

TEKELEC

UNAUDITED NON-GAAP STATEMENTS OF OPERATIONS FOR CONTINUING OPERATIONS <sup>(1)(3)</sup>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
(Thousands, except per share data)				
<b>Revenues</b>	\$ 114,914	\$ 105,996	\$ 345,755	\$ 340,661
Cost of sales:				
Cost of goods sold	36,777	33,486	112,992	115,123
<b>Gross profit</b>	<b>78,137</b>	<b>72,510</b>	<b>232,763</b>	<b>225,538</b>
Research and development	23,629	24,451	73,545	73,486
Sales and marketing	16,315	17,414	49,185	53,098
General and administrative	11,337	11,465	34,585	34,386
Total operating expenses	51,281	53,330	157,315	160,970
<b>Income from operations</b>	<b>26,856</b>	<b>19,180</b>	<b>75,448</b>	<b>64,568</b>
Other income (expense), net	(507)	(453)	(370)	1,704
<b>Income from continuing operations before provision for income taxes</b>	<b>26,349</b>	<b>18,727</b>	<b>75,078</b>	<b>66,272</b>
Provision for income taxes <sup>(2)</sup>	8,169	6,263	24,055	19,852
<b>Net income from continuing operations</b>	<b>\$ 18,180</b>	<b>\$ 12,464</b>	<b>\$ 51,023</b>	<b>\$ 46,420</b>
<b>Earnings per share:</b>				
Basic	\$ 0.27	\$ 0.19	\$ 0.76	\$ 0.70
Diluted	0.27	0.19	0.76	0.67
<b>Weighted average number of shares outstanding:</b>				
Basic	67,215	65,961	66,748	66,372
Diluted	68,022	66,763	67,465	70,972

(1) Please refer to the attached reconciliations of the GAAP Statements of Operations to the above Non-GAAP Statements of Operations.

(2) The above Non-GAAP Statements of Operations assume non-GAAP effective income tax rates of 31% and 33% for the three months ended September 30, 2009 and 2008, respectively. The above Non-GAAP Statements of Operations assume non-GAAP effective income tax rates of 32% and 30% for the nine months ended September 30, 2009 and 2008, respectively.

(3) We operate under a thirteen-week calendar quarter. For financial statement presentation purposes, the reporting periods are referred to as ended on the last day of the calendar quarter. The accompanying Unaudited Non-GAAP Statements of Operations for Continuing Operations are for the thirteen and thirty-nine weeks ended October 2, 2009 and September 26, 2008.

**TEKELEC**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>September 30,<sup>(1)</sup></b>	<b>December 31,</b>
	<b>2009</b>	<b>2008</b>
	(Thousands, except share data)	
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 266,550	\$ 209,441
Trading securities, at fair value	86,671	-
Put right, at fair value	11,688	-
Accounts receivable, net	110,693	171,630
Income taxes receivable	1,725	-
Inventories	30,822	23,704
Deferred income taxes	41,952	44,253
Deferred costs and prepaid commissions	49,673	56,588
Prepaid expenses and other current assets	9,563	11,061
Total current assets	609,337	516,677
Long-term trading securities, at fair value	-	87,198
Put right, at fair value	-	18,738
Property and equipment, net	35,408	34,904
Investments in privately held companies	1,388	22,297
Deferred income taxes, net	67,372	71,287
Other assets	1,699	1,415
Goodwill	42,509	41,741
Intangible assets, net	33,257	37,703
Total assets	\$ 790,970	\$ 831,960
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 22,554	\$ 25,308
Accrued expenses	25,097	30,723
Accrued compensation and related expenses	33,588	40,953
Current portion of deferred revenues	134,241	201,838
Income taxes payable	-	7,300
Liabilities of discontinued operations	-	184
Total current liabilities	215,480	306,306
Deferred income taxes	5,545	7,071
Long-term portion of deferred revenues	6,444	7,591
Other long-term liabilities	6,747	6,146
Total liabilities	234,216	327,114
<b>Commitments and Contingencies</b>		
<b>Shareholders' equity:</b>		
Common stock, without par value, 200,000,000 shares authorized; 67,325,811 and 66,139,690 shares issued and outstanding, respectively	327,558	309,550
Retained earnings	225,937	194,418
Accumulated other comprehensive income	3,259	878
Total shareholders' equity	556,754	504,846
Total liabilities and shareholders' equity	\$ 790,970	\$ 831,960

(1) We operate under a thirteen-week calendar quarter. For financial statement presentation purposes, the reporting periods are referred to as ended on the last day of the calendar quarter. The accompanying Unaudited Condensed Consolidated Balance Sheet is as of October 2, 2009.

**TEKELEC**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Nine Months Ended September 30, <sup>(1)</sup>	
	2009	2008
	(Thousands)	
<b>Cash flows from operating activities:</b>		
Net income	\$ 31,519	\$ 41,172
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations	-	(5,373)
Impairment of investment in privately-held company	13,587	-
Loss on sale of investments	-	2
Unrealized gain on ARS portfolio and Put right, net	(1,723)	-
Provision for (recovery of) doubtful accounts and sales returns	1,494	(84)
Provision for warranty	5,000	2,800
Inventory write downs	4,738	4,640
Loss on disposals of fixed assets	64	503
Depreciation	13,966	13,148
Amortization of intangibles	5,559	2,088
Amortization, other	562	754
Acquired in-process research and development	-	2,690
Deferred income taxes	4,559	(8,974)
Stock-based compensation	10,275	9,769
Excess tax benefits from stock-based compensation	(778)	(1,528)
Changes in operating assets and liabilities:		
Accounts receivable	60,322	(9,706)
Inventories	(10,593)	(9,170)
Deferred costs	7,272	1,119
Prepaid expenses and other assets	733	5,208
Accounts payable	(2,859)	(19,995)
Accrued expenses	(11,963)	(1,083)
Accrued compensation and related expenses	(9,624)	(10,029)
Deferred revenues	(69,498)	37,283
Income taxes receivable/payable	(7,805)	32,628
Total adjustments	<u>13,288</u>	<u>46,690</u>
Net cash provided by operating activities - continuing operations	<u>44,807</u>	<u>87,862</u>
Net cash used in operating activities - discontinued operations	<u>(184)</u>	<u>(2,472)</u>
Net cash provided by operating activities	<u>44,623</u>	<u>85,390</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sales and maturities of investments	16,622	787,784
Purchases of investments	-	(584,524)
Purchases of property and equipment	(14,563)	(15,666)
Payments related to acquired in-process research and development	-	(2,690)
Net cash provided by investing activities	<u>2,059</u>	<u>184,904</u>
<b>Cash flows from financing activities:</b>		
Repayment of convertible debt	-	(125,000)
Payments for repurchases of common stock	-	(33,779)
Proceeds from issuance of common stock	9,707	11,559
Excess tax benefits from stock-based compensation	778	1,528
Net cash provided by (used in) financing activities	<u>10,485</u>	<u>(145,692)</u>
Effect of exchange rate changes on cash	<u>(58)</u>	<u>(1,521)</u>
Net change in cash and cash equivalents	<u>57,109</u>	<u>123,081</u>
<b>Cash and cash equivalents, beginning of period</b>	<b><u>209,441</u></b>	<b><u>105,550</u></b>
<b>Cash and cash equivalents, end of period</b>	<b><u>\$ 266,550</u></b>	<b><u>\$ 228,631</u></b>

(1) We operate under a thirteen-week calendar quarter. For financial statement presentation purposes, the reporting periods are referred to as ended on the last day of the calendar quarter. The accompanying Unaudited Condensed Consolidated Statements of Cash Flows are for the thirty-nine weeks ended October 2, 2009 and September 26, 2008.

**TEKELEC**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**UNAUDITED IMPACT OF NON-GAAP ADJUSTMENTS ON NET INCOME**

Three Months Ended September 30, 2009 <sup>(6)</sup>			
(Thousands, except per share data)			
	GAAP Continuing Operations	Adjustments	Non-GAAP Continuing Operations
<b>Revenues</b>	\$ 114,914	\$ -	\$ 114,914
<b>Cost of sales:</b>			
Cost of goods sold	37,064	(287) <sup>(1)</sup>	36,777
Amortization of purchased technology	1,567	(1,567) <sup>(2)</sup>	-
<b>Total cost of sales</b>	<b>38,631</b>	<b>(1,854)</b>	<b>36,777</b>
<b>Gross profit</b>	<b>76,283</b>	<b>1,854</b>	<b>78,137</b>
<b>Operating Expenses:</b>			
Research and development	24,200	(351) <sup>(1)</sup> (220) <sup>(3)</sup>	23,629
Sales and marketing	17,168	(853) <sup>(1)</sup>	16,315
General and administrative	13,148	(1,811) <sup>(1)</sup>	11,337
Amortization of intangible assets	327	(327) <sup>(2)</sup>	-
<b>Total operating expenses</b>	<b>54,843</b>	<b>(3,562)</b>	<b>51,281</b>
<b>Income from operations</b>	<b>21,440</b>	<b>5,416</b>	<b>26,856</b>
Other income (expense), net	(10,666)	10,159 <sup>(4)</sup>	(507)
<b>Income from continuing operations before provision for income taxes</b>	<b>10,774</b>	<b>15,575</b>	<b>26,349</b>
Provision for income taxes	1,373	6,796 <sup>(5)</sup>	8,169
<b>Net income from continuing operations</b>	<b>\$ 9,401</b>	<b>\$ 8,779</b>	<b>\$ 18,180</b>

**Earnings per share:**

Basic	\$ 0.14	\$ 0.27
Diluted	\$ 0.14	\$ 0.27

**Weighted average number of shares outstanding:**

Basic	67,215	67,215
Diluted	68,022	68,022

(1) The adjustments represent stock-based compensation expense recognized related to awards of stock options, restricted stock or restricted stock units and stock appreciation rights granted under our equity incentive plans and stock purchase rights granted under our employee stock purchase plan.

(2) The adjustments represent the amortization of purchased technology and other intangibles related to the acquisitions of Steleus, iptelorg and mBalance.

(3) The adjustment represents consideration payable to Estacado that is contingent upon the continued employment of certain former Estacado employees by Tekelec.

(4) The adjustment represents a net charge associated with our investment in Genband received in exchange for our SSG business unit in 2007. Specifically, we incurred an impairment charge of \$10.8 million as a result of a decline in the estimated fair value of our investment as compared to historical cost. Partially offsetting this impairment is a one time property tax refund of \$0.7 million received associated with the former assets of our SSG business unit.

(5) The adjustment represents the income tax effect of footnotes (1), (2), (3) and (4) in order to reflect our non-GAAP effective tax rate.

(6) We operate under a thirteen-week calendar quarter. For financial statement presentation purposes, the reporting periods are referred to as ended on the last day of the calendar quarter. The accompanying schedule of Unaudited Impact of Non-GAAP Adjustments on Net Income is for the thirteen weeks ended October 2, 2009.

**TEKELEC**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**UNAUDITED IMPACT OF NON-GAAP ADJUSTMENTS ON NET INCOME**

Nine Months Ended September 30, 2009 <sup>(6)</sup>			
(Thousands, except per share data)			
	GAAP Continuing Operations	Adjustments	Non-GAAP Continuing Operations
<b>Revenues</b>	\$ 345,755	\$ -	\$ 345,755
<b>Cost of sales:</b>			
Cost of goods sold	113,777	(785) <sup>(1)</sup>	112,992
Amortization of purchased technology	4,599	(4,599) <sup>(2)</sup>	-
<b>Total cost of sales</b>	<b>118,376</b>	<b>(5,384)</b>	<b>112,992</b>
<b>Gross profit</b>	<b>227,379</b>	<b>5,384</b>	<b>232,763</b>
<b>Operating Expenses:</b>			
Research and development	75,603	(1,398) <sup>(1)</sup> (660) <sup>(3)</sup>	73,545
Sales and marketing	51,574	(2,389) <sup>(1)</sup>	49,185
General and administrative	40,288	(5,703) <sup>(1)</sup>	34,585
Amortization of intangible assets	960	(960) <sup>(2)</sup>	-
<b>Total operating expenses</b>	<b>168,425</b>	<b>(11,110)</b>	<b>157,315</b>
<b>Income from operations</b>	<b>58,954</b>	<b>16,494</b>	<b>75,448</b>
Other income (expense), net	(13,287)	12,917 <sup>(4)</sup>	(370)
<b>Income from continuing operations before provision for income taxes</b>	<b>45,667</b>	<b>29,411</b>	<b>75,078</b>
Provision for income taxes	14,148	9,907 <sup>(5)</sup>	24,055
<b>Net income from continuing operations</b>	<b>\$ 31,519</b>	<b>\$ 19,504</b>	<b>\$ 51,023</b>

**Earnings per share:**

Basic	\$ 0.47	\$ 0.76
Diluted	\$ 0.47	\$ 0.76

**Weighted average number of shares outstanding:**

Basic	66,748	66,748
Diluted	67,465	67,465

(1) The adjustments represent stock-based compensation expense recognized related to awards of stock options, restricted stock or restricted stock units and stock appreciation rights granted under our equity incentive plans and stock purchase rights granted under our employee stock purchase plan.

(2) The adjustments represent the amortization of purchased technology and other intangibles related to the acquisitions of Steleus, iptelorg and mBalance.

(3) The adjustment represents consideration payable to Estacado that is contingent upon the continued employment of certain former Estacado employees by Tekelec.

(4) The adjustment represents a net charge associated with our investment in Genband received in exchange for our SSG business unit in 2007. Specifically, we incurred an impairment charge of \$13.6 million as a result of a decline in the estimated fair value of our investment as compared to historical cost. Partially offsetting this impairment is a one time property tax refund of \$0.7 million received associated with the former assets of our SSG business unit.

(5) The adjustment represents the income tax effect of footnotes (1), (2), (3) and (4) in order to reflect our non-GAAP effective tax rate.

(6) We operate under a thirteen-week calendar quarter. For financial statement presentation purposes, the reporting periods are referred to as ended on the last day of the calendar quarter. The accompanying schedule of Unaudited Impact of Non-GAAP Adjustments on Net Income is for the thirty-nine weeks ended October 2, 2009.

**TEKELEC**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**UNAUDITED IMPACT OF NON-GAAP ADJUSTMENTS ON NET INCOME**

Three Months Ended September 30, 2008 <sup>(6)</sup>			
(Thousands, except per share data)			
	GAAP Continuing Operations	Adjustments	Non-GAAP Continuing Operations
<b>Revenues</b>	\$ 105,996	\$ -	\$ 105,996
<b>Cost of sales:</b>			
Cost of goods sold	33,775	(289) <sup>(1)</sup>	33,486
Amortization of purchased technology	587	(587) <sup>(2)</sup>	-
<b>Total cost of sales</b>	<b>34,362</b>	<b>(876)</b>	<b>33,486</b>
<b>Gross profit</b>	<b>71,634</b>	<b>876</b>	<b>72,510</b>
<b>Operating Expenses:</b>			
Research and development	25,082	(411) <sup>(1)</sup> (220) <sup>(3)</sup>	24,451
Sales and marketing	18,159	(745) <sup>(1)</sup>	17,414
General and administrative	13,272	(1,807) <sup>(1)</sup>	11,465
Amortization of intangible assets	109	(109) <sup>(2)</sup>	-
<b>Total operating expenses</b>	<b>56,622</b>	<b>(3,292)</b>	<b>53,330</b>
<b>Income from operations</b>	<b>15,012</b>	<b>4,168</b>	<b>19,180</b>
Other income (expense), net	(453)	-	(453)
<b>Income from continuing operations before provision for income taxes</b>	<b>14,559</b>	<b>4,168</b>	<b>18,727</b>
Provision for income taxes	5,941	322 <sup>(4)</sup>	6,263
<b>Income from continuing operations</b>	<b>8,618</b>	<b>3,846</b>	<b>12,464</b>
Income from discontinued operations, net of taxes	3,755	(3,755) <sup>(5)</sup>	-
<b>Net income</b>	<b>\$ 12,373</b>	<b>\$ 91</b>	<b>\$ 12,464</b>

**Earnings per share from continuing operations:**

Basic	\$ 0.13	\$ 0.19
Diluted	0.13	0.19

**Earnings per share:**

Basic	\$ 0.19	\$ 0.19
Diluted	0.19	0.19

**Weighted average number of shares outstanding:**

Basic	65,961	65,961
Diluted	66,763	66,763

(1) The adjustments represent stock-based compensation expense recognized related to awards of stock options, restricted stock or restricted stock units and stock appreciation rights granted under our equity incentive plans and stock purchase rights granted under our employee stock purchase plan.

(2) The adjustments represent the amortization of purchased technology and other intangibles related to the acquisitions of Steleus and iptelorg.

(3) The adjustment represents consideration payable to Estacado that is contingent upon the continued employment of certain former Estacado employees by Tekelec.

(4) The adjustment represents the income tax effect of footnotes (1), (2) and (3) in order to reflect our non-GAAP effective tax rate.

(5) The adjustment represents the elimination of our discontinued operations.

(6) We operate under a thirteen-week calendar quarter. For financial statement presentation purposes, the reporting periods are referred to as ended on the last day of the calendar quarter. The above schedule of Unaudited Impact of Non-GAAP Adjustments on Net Income is for the thirteen weeks ended September 26, 2008.

## Q3 2009 Results

### TEKELEC UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS UNAUDITED IMPACT OF NON-GAAP ADJUSTMENTS ON NET INCOME

Nine Months Ended September 30, 2008 <sup>(10)</sup>

(Thousands, except per share data)

	GAAP Continuing Operations	Adjustments	Non-GAAP Continuing Operations
<b>Revenues</b>	\$ 340,661	\$ -	\$ 340,661
<b>Cost of sales:</b>			
Cost of goods sold	116,113	(990) <sup>(1)</sup>	115,123
Amortization of purchased technology	1,761	(1,761) <sup>(2)</sup>	-
<b>Total cost of sales</b>	<b>117,874</b>	<b>(2,751)</b>	<b>115,123</b>
<b>Gross profit</b>	<b>222,787</b>	<b>2,751</b>	<b>225,538</b>
<b>Operating Expenses:</b>			
Research and development	75,706	(1,633) <sup>(1)</sup> (587) <sup>(3)</sup>	73,486
Sales and marketing	55,269	(2,171) <sup>(1)</sup>	53,098
General and administrative	40,477	(5,191) <sup>(1)</sup> (900) <sup>(4)</sup>	34,386
Acquired in-process research and development	2,690	(2,690) <sup>(5)</sup>	-
Restructuring and other	243	(459) <sup>(6)</sup> 216 <sup>(1),(6)</sup> (327) <sup>(2)</sup>	-
Amortization of intangible assets	327		-
<b>Total operating expenses</b>	<b>174,712</b>	<b>(13,742)</b>	<b>160,970</b>
<b>Income from operations</b>	<b>48,075</b>	<b>16,493</b>	<b>64,568</b>
Other income (expense), net	1,704	-	1,704
<b>Income from continuing operations before provision for income taxes</b>	<b>49,779</b>	<b>16,493</b>	<b>66,272</b>
Provision for income taxes	13,980	5,872 <sup>(7)</sup>	19,852
<b>Income from continuing operations</b>	<b>35,799</b>	<b>10,621</b>	<b>46,420</b>
Income from discontinued operations, net of taxes	5,373	(5,373) <sup>(8)</sup>	-
<b>Net income</b>	<b>\$ 41,172</b>	<b>\$ 5,248</b>	<b>\$ 46,420</b>
<b>Earnings per share from continuing operations:</b>			
Basic	\$ 0.54		\$ 0.70
Diluted <sup>(9)</sup>	0.52		0.67
<b>Earnings per share:</b>			
Basic	\$ 0.62		\$ 0.70
Diluted <sup>(9)</sup>	0.60		0.67
<b>Weighted average number of shares outstanding:</b>			
Basic	66,372		66,372
Diluted <sup>(9)</sup>	70,972		70,972

(1) The adjustments represent stock-based compensation expense recognized related to awards of stock options, restricted stock or restricted stock units and stock appreciation rights granted under our equity incentive plans and stock purchase rights granted under our employee stock purchase plan.

(2) The adjustments represent the amortization of purchased technology and other intangibles related to the acquisitions of Steleus and iptelorg.

(3) The adjustment represents consideration payable to Estacado that is contingent upon the continued employment of certain former Estacado employees by Tekelec.

(4) The adjustment represents an arbitration award and associated legal fees in favor of our former President and CEO, Fred Lax.

(5) The adjustment represents acquired in-process research and development related to the Estacado purchase.

(6) The adjustment represents the elimination of costs incurred during 2008 related to restructuring certain functions in our EAAA region and changes in estimates related to our 2007 realignment activities.

(7) The adjustment represents the income tax effect of excluding second quarter discrete tax benefits totaling \$3.7 million related to reversing a valuation allowance on deferred tax assets generated by the loss on sale of SSG. Also included in the adjustment is the income tax effect of footnotes (1), (2), (3), (4), (5) and (6) in order to reflect our Non-GAAP effective tax rate.

(8) The adjustment represents the elimination of our discontinued operations.

(9) For the nine months ended September 30, 2008, the calculations of diluted earnings per share include a potential add-back to net income of \$1,085,000 for assumed after-tax interest cost and 3,961,000 weighted average shares related our previously outstanding convertible debt using the "if-converted" method.

(10) We operate under a thirteen-week calendar quarter. For financial statement presentation purposes, the reporting periods are referred to as ended on the last day of the calendar quarter. The above schedule of Unaudited Impact of Non-GAAP Adjustments on Net Income is for the thirty-nine weeks ended September 26, 2008.