

TEKELEC
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	<u>Three Months Ended December 31,</u>		<u>Year Ended December 31,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
(Thousands, except per share data)				
Revenues	\$ 119,903	\$ 115,226	\$ 460,564	\$ 431,800
Cost of sales:				
Cost of goods sold	38,147	44,280	154,260	176,323
Amortization of purchased technology	746	588	2,507	2,354
Total cost of sales	<u>38,893</u>	<u>44,868</u>	<u>156,767</u>	<u>178,677</u>
Gross profit	<u>81,010</u>	<u>70,358</u>	<u>303,797</u>	<u>253,123</u>
Operating expenses:				
Research and development	24,907	23,190	100,613	92,223
Sales and marketing	19,409	18,923	74,678	72,559
General and administrative	15,762	14,973	56,239	55,121
Acquired in-process research and development	3,000	419	5,690	419
Restructuring and other	891	1,823	1,134	6,625
Amortization of intangible assets	111	109	438	249
Total operating expenses	<u>64,080</u>	<u>59,437</u>	<u>238,792</u>	<u>227,196</u>
Income from operations	<u>16,930</u>	<u>10,921</u>	<u>65,005</u>	<u>25,927</u>
Other income (expense), net:				
Interest income	1,722	4,740	9,047	17,446
Interest expense	(66)	(837)	(1,986)	(3,591)
Gain (loss) on sale of investments	-	1	(2)	224
Gain on recognition of UBS rights at fair value	18,738	-	18,738	-
Unrealized loss on trading securities	(20,702)	-	(20,702)	-
Other, net	209	(1,046)	(3,490)	(4,034)
Total other income (expense), net	<u>(99)</u>	<u>2,858</u>	<u>1,605</u>	<u>10,045</u>
Income from continuing operations before provision for income taxes	16,831	13,779	66,610	35,972
Provision for income taxes	4,060	3,720	18,040	9,081
Income from continuing operations	<u>12,771</u>	<u>10,059</u>	<u>48,570</u>	<u>26,891</u>
Income (loss) from discontinued operations, net of taxes	<u>1,096</u>	<u>348</u>	<u>6,469</u>	<u>(62,227)</u>
Net income (loss)	<u>\$ 13,867</u>	<u>\$ 10,407</u>	<u>\$ 55,039</u>	<u>\$ (35,336)</u>
Earnings per share from continuing operations:				
Basic	\$ 0.19	\$ 0.15	\$ 0.73	\$ 0.39
Diluted	0.19	0.14	0.71	0.38
Earnings (loss) per share from discontinued operations:				
Basic	\$ 0.02	\$ 0.01	\$ 0.10	\$ (0.89)
Diluted	0.02	0.00	0.09	(0.81)
Earnings (loss) per share:				
Basic	\$ 0.21	\$ 0.15	\$ 0.83	\$ (0.51)
Diluted	0.21	0.15	0.80	(0.43)
Weighted average number of shares outstanding-continuing operations:				
Basic	66,113	68,443	66,307	69,531
Diluted	66,521	75,235	69,859	76,796
Weighted average number of shares outstanding:				
Basic	66,113	68,443	66,307	69,531
Diluted	66,521	75,235	69,859	76,796

TEKELEC
UNAUDITED NON-GAAP STATEMENTS OF OPERATIONS FOR CONTINUING OPERATIONS ⁽¹⁾

	Three Months Ended December 31,		Year Ended December 31,	
	2008	2007	2008	2007
	(Thousands, except per share data)			
Revenues	\$ 119,903	\$ 115,226	\$ 460,564	\$ 431,800
Cost of sales:				
Cost of goods sold	37,862	43,913	152,985	169,668
Gross profit	82,041	71,313	307,579	262,132
Research and development	24,179	22,554	97,665	89,380
Sales and marketing	18,730	18,222	71,828	69,189
General and administrative	13,705	13,307	48,091	46,821
Total operating expenses	56,614	54,083	217,584	205,390
Income from operations	25,427	17,230	89,995	56,742
Interest and other income (expense), net	(99)	2,858	1,605	10,045
Income from continuing operations before provision for income taxes	25,328	20,088	91,600	66,787
Provision for income taxes ⁽²⁾	7,092	5,205	26,944	18,525
Net income from continuing operations	\$ 18,236	\$ 14,883	\$ 64,656	\$ 48,262
Earnings per share:				
Basic	\$ 0.28	\$ 0.22	\$ 0.98	\$ 0.69
Diluted	0.27	0.21	0.94	0.66
Weighted average number of shares outstanding:				
Basic	66,113	68,443	66,307	69,531
Diluted	66,521	75,235	69,859	76,796

(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 28% and 26% for the three months ended December 31, 2008 and 2007, respectively. The above Non-GAAP Statements of Operations assume non-GAAP effective income tax rates of 29% and 28% for the year ended December 31, 2008 and 2007, respectively.

TEKELEC
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31,	
	2008	2007
	(Thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 209,441	\$ 105,550
Short-term investments, at fair value	-	313,922
Total cash, cash equivalents and short-term investments	209,441	419,472
Accounts receivable, net	171,630	147,092
Inventories	23,704	20,543
Income taxes receivable	-	28,361
Deferred income taxes	44,253	18,793
Deferred costs and prepaid commissions	56,588	57,203
Prepaid expenses and other current assets	11,061	14,726
Total current assets	516,677	706,190
Long-term trading securities, at fair value	87,198	-
Put right, at fair value	18,738	-
Property and equipment, net	34,904	32,510
Investments in privately-held companies	22,297	18,553
Deferred income taxes, net	71,287	83,418
Other assets	1,415	1,320
Goodwill	41,741	22,951
Intangible assets, net	37,703	16,948
Total assets	\$ 831,960	\$ 881,890
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 25,308	\$ 45,388
Accrued expenses	30,723	21,259
Accrued compensation and related expenses	40,953	40,234
Convertible debt	-	125,000
Current portion of deferred revenues	201,838	166,274
Income taxes payable	7,300	-
Liabilities of discontinued operations	184	5,767
Total current liabilities	306,306	403,922
Deferred income taxes	7,071	1,295
Long-term portion of deferred revenues	7,591	8,917
Other long-term liabilities	6,146	6,569
Total liabilities	327,114	420,703
Commitments and Contingencies		
Shareholders' equity:		
Common stock, without par value, 200,000,000 shares authorized; 66,139,690 and 67,479,916 shares issued and outstanding, respectively	309,550	319,761
Retained earnings	194,418	139,379
Accumulated other comprehensive income	878	2,047
Total shareholders' equity	504,846	461,187
Total liabilities and shareholders' equity	\$ 831,960	\$ 881,890

TEKELEC
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2008	2007
	(Thousands)	
Cash flows from operating activities:		
Net income (loss)	\$ 55,039	\$ (35,336)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Loss (income) from discontinued operations	(6,469)	62,227
Loss (gain) on sale of investments	2	(224)
Gain on recognition of UBS rights at fair value	(18,738)	-
Unrealized loss on trading securities	20,702	-
Provision for doubtful accounts and returns	1,339	1,335
Inventory write downs	6,588	10,841
Loss on disposal of fixed assets	648	984
Depreciation	17,426	15,485
Amortization of intangibles	2,945	2,603
Amortization of deferred financing costs and other	939	1,656
Acquired in-process research and development	5,690	419
Deferred income taxes	(12,276)	(176)
Stock-based compensation	13,298	15,682
Excess tax benefits from stock-based compensation	(1,563)	(3,914)
Changes in operating assets and liabilities, net of business disposal:		
Accounts receivable	(22,718)	(16,946)
Inventories	(8,911)	(4,465)
Deferred costs	(859)	(2,093)
Prepaid expenses and other assets	1,604	4,377
Accounts payable	(17,310)	3,725
Accrued expenses	3,045	(6,713)
Accrued compensation and related expenses	(2,201)	5,318
Deferred revenues	34,261	(19,439)
Income taxes payable/receivable	33,474	17,149
Total adjustments	<u>50,916</u>	<u>87,831</u>
Net cash provided by operating activities - continuing operations	<u>105,955</u>	<u>52,495</u>
Net cash used in operating activities - discontinued operations	<u>(2,680)</u>	<u>(18,443)</u>
Net cash provided by operating activities	<u>103,275</u>	<u>34,052</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	790,635	703,949
Purchases of investments	(584,524)	(638,822)
Purchase of acquired business, net of cash acquired	(35,766)	-
Payments related to acquired in-process research and development	(2,690)	(2,519)
Purchases of property and equipment	(19,686)	(20,234)
Other non-operating assets	-	128
Net cash provided by investing activities - continuing operations	<u>147,969</u>	<u>42,502</u>
Net cash used in investing activities - discontinued operations	<u>-</u>	<u>(3,241)</u>
Net cash provided by investing activities	<u>147,969</u>	<u>39,261</u>
Cash flows from financing activities:		
Repayment of convertible debt	(125,000)	-
Repurchase of common stock	(33,779)	(50,122)
Proceeds from issuance of common stock	11,922	30,686
Excess tax benefits from stock-based compensation	1,563	3,914
Net cash used in financing activities	<u>(145,294)</u>	<u>(15,522)</u>
Effect of exchange rate changes on cash	<u>(2,059)</u>	<u>2,308</u>
Net change in cash and cash equivalents	<u>103,891</u>	<u>60,099</u>
Cash and cash equivalents, beginning of period	<u>105,550</u>	<u>45,451</u>
Cash and cash equivalents, end of period	<u>\$ 209,441</u>	<u>\$ 105,550</u>

TEKELEC
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
UNAUDITED IMPACT OF NON-GAAP ADJUSTMENTS

Three Months Ended December 31, 2008

	(Thousands, except per share data)		
	GAAP Continuing Operations	Adjustments	Non-GAAP Continuing Operations
Revenues	119,903	\$ -	\$ 119,903
Cost of sales:			
Cost of goods sold	38,147	(285) ⁽¹⁾	37,862
Amortization of purchased technology	746	(746) ⁽²⁾	-
Total cost of sales	38,893	(1,031)	37,862
Gross profit	81,010	1,031	82,041
Operating Expenses:			
Research and development	24,907	(508) ⁽¹⁾ (220) ⁽³⁾	24,179
Sales and marketing	19,409	(679) ⁽¹⁾	18,730
General and administrative	15,762	(2,057) ⁽¹⁾	13,705
Acquired in-process research and development	3,000	(3,000) ⁽⁴⁾	-
Restructuring and other	891	(891) ⁽⁵⁾	-
Amortization of intangible assets	111	(111) ⁽²⁾	-
Total operating expenses	64,080	(7,466)	56,614
Income from operations	16,930	8,497	25,427
Interest and other expense, net	(99)	-	(99)
Income from continuing operations before provision for income taxes	16,831	8,497	25,328
Provision for income taxes	4,060	3,032 ⁽⁶⁾	7,092
Income from continuing operations	12,771	5,465	18,236
Income from discontinued operations, net of taxes	1,096	(1,096) ⁽⁷⁾	-
Net income	\$ 13,867	\$ 4,369	\$ 18,236

Earnings per share from continuing operations:

Basic	\$ 0.19	\$ 0.28
Diluted	0.19	0.27

Earnings per share:

Basic	\$ 0.21	\$ 0.28
Diluted	0.21	0.27

Weighted average number of shares outstanding:

Basic	66,113	66,113
Diluted	66,521	66,521

(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 acquired in-process research and development related to the mBalance purchase.

(5) The adjustment represents the elimination of the costs associated with our restructuring activities.

(6) The adjustment represents the income tax effect of footnotes (1), (2), (3), (4) and (5) in order to reflect our non-GAAP effective tax rate of 28%.

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

TEKELEC
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
UNAUDITED IMPACT OF NON-GAAP ADJUSTMENTS

Year Ended December 31, 2008			
(Thousands, except per share data)			
	GAAP Continuing Operations	Adjustments	Non-GAAP Continuing Operations
Revenues	\$ 460,564	\$ -	\$ 460,564
Cost of sales:			
Cost of goods sold	154,260	(1,275) ⁽¹⁾	152,985
Amortization of purchased technology	2,507	(2,507) ⁽²⁾	-
Total cost of sales	156,767	(3,782)	152,985
Gross profit	303,797	3,782	307,579
Operating Expenses:			
Research and development	100,613	(2,141) ⁽¹⁾ (807) ⁽³⁾	97,665
Sales and marketing	74,678	(2,850) ⁽¹⁾	71,828
General and administrative	56,239	(7,248) ⁽¹⁾ (900) ⁽⁴⁾	48,091
Acquired in-process research and development	5,690	(5,690) ⁽⁵⁾	-
Restructuring and other	1,134	(1,350) ⁽⁶⁾ 216 ^{(1),(6)}	-
Amortization of intangible assets	438	(438) ⁽²⁾	-
Total operating expenses	238,792	(21,208)	217,584
Income from operations	65,005	24,990	89,995
Interest and other income, net	1,605	-	1,605
Income from continuing operations before provision for income taxes	66,610	24,990	91,600
Provision for income taxes	18,040	8,904 ⁽⁷⁾	26,944
Income from continuing operations	48,570	16,086	64,656
Income from discontinued operations, net of taxes	6,469	(6,469) ⁽⁸⁾	-
Net income	\$ 55,039	\$ 9,617	\$ 64,656
Earnings per share from continuing operations:			
Basic	\$ 0.73		\$ 0.98
Diluted ⁽⁹⁾	0.71		0.94
Earnings per share:			
Basic	\$ 0.83		\$ 0.98
Diluted ⁽⁹⁾	0.80		0.94
Weighted average number of shares outstanding:			
Basic	66,307		66,307
Diluted ⁽⁹⁾	69,859		69,859

(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 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 mBalance and Estacado purchases.

(6) The adjustment represents the elimination of the costs associated with our restructuring activities.

(7) The adjustment represents the exclusion of discrete tax benefits totaling \$3.7 million related to reversing a valuation allowance on deferred tax assets generated by the loss on sale of our former Switching Solutions Group. 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 of 29%.

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

(9) For the year ended December 31, 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 2,971,000 weighted average shares related to our previously outstanding convertible debt using the "if-converted" method.

TEKELEC
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
UNAUDITED IMPACT OF NON-GAAP ADJUSTMENTS

Three Months Ended December 31, 2007

(Thousands, except per share data)

	GAAP Continuing Operations	Adjustments	Non-GAAP Continuing Operations
Revenues	\$ 115,226	\$ -	\$ 115,226
Cost of sales:			
Cost of goods sold	44,280	(367) ⁽¹⁾	43,913
Amortization of purchased technology	588	(588) ⁽²⁾	-
Total cost of sales	44,868	(955)	43,913
Gross profit	70,358	955	71,313
Operating Expenses:			
Research and development	23,190	(636) ⁽¹⁾	22,554
Sales and marketing	18,923	(701) ⁽¹⁾	18,222
General and administrative	14,973	(1,666) ⁽¹⁾	13,307
Acquired in-process research and development	419	(419) ⁽³⁾	-
Restructuring and other	1,823	(1,597) ⁽⁴⁾	-
		(226) ⁽¹⁾	
Amortization of intangible assets	109	(109) ⁽²⁾	-
Total operating expenses	59,437	(5,354)	54,083
Income from operations	10,921	6,309	17,230
Interest and other income, net	2,858	-	2,858
Income from continuing operations before provision for income taxes	13,779	6,309	20,088
Provision for income taxes	3,720	1,485 ⁽⁵⁾	5,205
Income from continuing operations	10,059	4,824	14,883
Income from discontinued operations, net of taxes	348	(348) ⁽⁶⁾	-
Net income	\$ 10,407	\$ 4,476	\$ 14,883
Earnings per share from continuing operations:			
Basic	\$ 0.15		\$ 0.22
Diluted ⁽⁷⁾	0.14		0.21
Earnings per share:			
Basic	\$ 0.15		\$ 0.22
Diluted ⁽⁷⁾	0.15		0.21
Weighted average number of shares outstanding:			
Basic	68,443		68,443
Diluted ⁽⁷⁾	75,235		75,235

(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 acquired in-process research and development related to certain signaling technology.

(4) The adjustment represents the eliminations of the costs associated with our restructuring activities.

(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 of 26%.

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

(7) For the three months ended December 31, 2007, the calculations of diluted earnings per share include a potential add-back to net income of \$581,000 for assumed after-tax interest cost and 6,361,000 weighted average shares related to our previously outstanding convertible debt using the "if-converted" method.

TEKELEC
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
UNAUDITED IMPACT OF NON-GAAP ADJUSTMENTS

Year Ended December 31, 2007			
(Thousands, except per share data)			
	GAAP		Non-GAAP
	Continuing	Adjustments	Continuing
	Operations		Operations
Revenues	\$ 431,800	\$ -	\$ 431,800
Cost of sales:			
Cost of goods sold	176,323	(1,655) ⁽¹⁾	169,668
		(5,000) ⁽²⁾	
Amortization of purchased technology	2,354	(2,354) ⁽³⁾	-
Total cost of sales	178,677	(9,009)	169,668
Gross profit	253,123	9,009	262,132
Operating Expenses:			
Research and development	92,223	(2,843) ⁽¹⁾	89,380
Sales and marketing	72,559	(3,370) ⁽¹⁾	69,189
General and administrative	55,121	(7,588) ⁽¹⁾	46,821
		(712) ⁽⁴⁾	
Acquired in-process research and development	419	(419) ⁽⁵⁾	-
Restructuring and other	6,625	(6,399) ⁽⁶⁾	-
		(226) ⁽¹⁾	
Amortization of intangible assets	249	(249) ⁽³⁾	-
Total operating expenses	227,196	(21,806)	205,390
Income from operations	25,927	30,815	56,742
Interest and other income, net	10,045	-	10,045
Income from continuing operations before provision for income taxes	35,972	30,815	66,787
Provision for income taxes	9,081	9,444 ⁽⁷⁾	18,525
Income from continuing operations	26,891	21,371	48,262
Loss from discontinued operations, net of taxes	(62,227)	62,227 ⁽⁸⁾	-
Net income (loss)	\$ (35,336)	\$ 83,598	\$ 48,262
Earnings per share from continuing operations:			
Basic	\$ 0.39		\$ 0.69
Diluted ⁽⁹⁾	0.38		0.66
Earnings (loss) per share:			
Basic	\$ (0.51)		\$ 0.69
Diluted ⁽⁹⁾	(0.43)		0.66
Weighted average number of shares outstanding:			
Basic	69,531		69,531
Diluted ⁽⁹⁾	76,796		76,796

(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 charge associated with product credits issued to Bouygues Telecom, S.A. as part of our settlement of the Bouygues litigation.

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

(4) The adjustment represents legal expenses incurred to settle the Bouygues litigation.

(5) The adjustment represents acquired in-process research and development related to certain signaling technology.

(6) The adjustment represents the eliminations of the costs associated with our restructuring activities.

(7) The adjustment represents the income tax effect of footnotes (1), (2), (3), (4), (5) and (6) in order to reflect our non-GAAP effective tax rate of 28%.

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

(9) For the year ended December 31, 2007, the calculations of diluted earnings per share include a potential add-back to net income of \$2,324,000 for assumed after-tax interest cost and 6,361,000 weighted average shares related to our previously outstanding convertible debt using the "if-converted" method.