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Sonus Networks, Inc. (SONS)

Q1 2014 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you very much for standing by, and welcome to the Sonus Networks First Quarter 2014 Results Conference Call. During this presentation, all participants are in a listen-only mode. Afterwards, we will conduct a question-and-answer session. [Operator Instructions] As a reminder, today's conference is being recorded, on Thursday, April 24, 2014.

It's now my pleasure to turn the conference over to Patti Leahy, VP, Investor Relations at Sonus Networks. Please go ahead, ma'am.

Patti Leahy
Vice President, Investor Relations, Sonus Networks, Inc.

Thank you, and good morning. Welcome to Sonus Networks first quarter 2014 operating results conference call. Joining me on the call today are Ray Dolan, President and Chief Executive Officer; and Mark Greenquist, Chief Financial Officer.

Today's press release and supplementary financial and operational data have been posted to our IR website at sonus.net and filed with the SEC. A recording of this call and a transcript will be available on our IR website after the call as well.

During our prepared remarks we will also be referring to a presentation with supporting information. If you haven't done so already please take a moment to locate this on the IR website.

As shown on slide 2, please note that during this call we will make forward-looking statements regarding items such as future market opportunities and the company's financial outlook. Actual events or financial results may

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differ materially from these forward-looking statements and are subject to various risks and uncertainties, including without limitation, economic conditions, market acceptance of our products and services, the timing of revenue recognition, difficulties leveraging market opportunities, the impact of restructuring activities, and our ability to realize the benefits of acquisitions.

A discussion of these and other factors that may affect future results is contained in our most recent Form 10-K filed with the SEC and in today's earnings release both of which are available on our website. While we may elect to update or revise forward-looking statements at some point, we specifically disclaim any obligation to do so.

During our call we will be referring to certain GAAP and non-GAAP financial measures. A reconciliation of the non-GAAP to comparable GAAP financial measures is included in our press release issued today as well as in the Investor Relations section of our website.

So, with that it's now my pleasure to introduce the President and Chief Executive Officer of Sonus, Ray Dolan.

Raymond P. Dolan

President, Chief Executive Officer & Director, Sonus Networks, Inc.

Thank you, Patti, and good morning, everyone. On behalf of the thousand plus teammates here at Sonus I'm very pleased to report our strong operating results for the first quarter 2014. Let's briefly hit some of the highlights as we turn to slide 4 of today's presentation.

Our performance this quarter exceeded all of our guidance metrics. Total revenue was up 12% year-over-year to $70.7 million. SBC revenue was up 14% to $34.3 million which represents a record performance for this first quarter. This number includes a small amount of Diameter revenue which will continue to include in our SBC revenue as both components reflect the growth side of our business going forward.

Gross margins improved significantly as almost 68%, up nearly 700 basis points from the prior year period. While gross margins can fluctuate quarter-to-quarter due to products mix, it does indicate the progress we're making to move towards more software-centric standard products and drive further efficiencies in our manufacturing operations. Importantly, these results in combination led to a non-GAAP profit in the first quarter with nearly $4 million falling to the bottom line. I'm proud of the team for delivering these results which we believe sets us up very well for improved profitability in 2014.

We demonstrated strong commercial execution with the addition of 173 new customers which is up 18% from the fourth quarter. Among our new customers are a Tier 1 from North America as well as a Tier 1 from Asia-Pac. We also continued to out-innovate our competition with the announcement of the SBC 7000 which sets a new performance standard for real-time communications. We're pleased to report that we're seeing strong interest from large service providers for this product and have in fact already taken the first SBC 7000 order from a Tier 1 operator in A-Pac.

I expect we'll be talking about the SBC 7000 quite a bit this year as we demonstrate a significant advantage it provides to our customers over anything else in the market. We believe we are clearly leading the SBC market at the high end today.

The PT acquisition was completed in the first quarter which strengthens our mobility strategy. We're pleased to report that two new Diameter customer wins representing approximately $1 million of revenue in the first quarter. It's early days and as such we expect our results here to remain a bit lumpy this year but we're encouraged by this progress.

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We also have continued to return excess capital to our shareholders while at the same time dramatically reducing our shareholder concentration. To put some numbers around the buyback activities in the quarter, we repurchased 21.5 million shares or $75 million worth as part of an underwritten public secondary offering led by Goldman Sachs on behalf of our largest shareholder. This process resulted in the ownership of our largest shareholder going from roughly 22% to approximately 7%.

We repurchased a total of 40 million shares or about 14% of our total shares outstanding since the inception of our buyback program announced in July of last year. And we have approximately $40 million remaining for future repurchases under that previously announced program.

Slide 5 summarizes some of our recent customer wins I referenced a moment ago. The key takeaway here is that we're winning Tier 1 customers across a broad set of use cases. No other competitor has the portfolio breadth to compete as effectively as Sonus. Each of these markets is showing strong growth, and we are executing well against them. In fact, of our 173 new customers in the first quarter, a record 93% purchased SBC or Diameter-related products and services from us, further evidence of the excellent traction we're experiencing in Q1.

Before we go into further details on the quarter, I'd like to step back and provide some context on how we see the opportunity at Sonus unfolding. Some of you may have heard my comments at our recent Analyst Day. I think it bears repeating, particularly in today's market environment, which has been very challenging to say the least for many comm-tech companies. There is tremendous confusion in the marketplace, both commercially and financially, about the implications of the cloud and how applications will function as they increasingly embed real-time communication and what this means for service providers and enterprise CIOs in the future.

The fact remains that communications are and will continue to be mission critical to the cloud, perhaps even more so going forward. The companies that can deliver communication securely and reliably at the appropriate level of signaling, policy, interworking, and scale will become the new leaders in the Internet of Everything.

There is no question that the business models of our service provider customers are changing; indeed they must change. Service providers are moving up the stack and driving greater software centricity so that they can engage at the application layer in order to better monetize their networks. To do this they need more intelligence, and this is exactly where Sonus fits in. In fact, I would argue that Sonus was born into this mission. Our very roots started with extracting voice from the network to run as an application over IP transport. We've been doing this for the past 15 years securely and intelligently for billions of real-time communications sessions on the world's largest networks.

This competency ports very well to the new architecture that is emerging; in fact it is the architecture of the future. It is clear for this slide and our continued SBC traction that our SBC success has moved beyond interconnect. The breadth of our portfolio allows us to play in all corners of the rapidly growing SBC and Diameter Signaling markets, which as we discussed at our recent Investor Day are projected to grow at a 25% to 30% five-year CAGR.

So let's step back for a moment from our immediate results and turn to slide 6, which lays out the notion of what I'm calling an intelligent delivery layer, the green area of this chart. We see Sonus positioned very strategically between the programmable network layer at the bottom, which generally speaking means layer 2 and layer 3 companies which are IP transport and facing increasing risk of commoditization, and the application delivery layer at the top, which is an incredibly vibrant space and attracting tremendous investor interest.

This is important to discuss in the proper strategic context. Most of us grew up in a world where we didn't use the term app because the app was actually an entire network. Think about it. We had a voice network, we had a data

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network, we had a paging network, we had a radio network, we had a broadcast TV network. These networks ran specifically for their own purpose. Then along comes the Internet and after several decades of global investment, today we finally see the opportunity for all those applications to run over a common IP transport layer. It is an incredibly powerful opportunity to drive efficiency and cost for service providers and massive improvements in productivity. Everyone and everything will be connected.

Content is being democratized, and it's literally created billions of times per day in the palms of our hand and shared ubiquitously. The social and political implications are staggering. Mobile and fixed networks are converging and indicating the promise in the near future of ubiquitous access to an all-IP network.

But how is this all going to work? Who is going to pay for this? How will congestion be managed and scarce resources allocated? While some folks would suggest that bandwidth will become unlimited and free just like water, ask yourself, when was the last time you didn't pay for that free water?

In the real world, all resources are scarce. Period. The issue is figuring out how to optimize access and allocate resources in the free market. Service providers need a viable, profitable business model. That requires a new layer of intelligence, and SBCs are the most critical network element in that architecture.

Consider one other point, which is the cultural difference between these two layers. The traditional cycle time at the network layer between upgrades is about once a year, while today's apps players innovate in days or even hours. No wonder people are talking "over the top of each other". We need a more rational discussion and a realistic vision for how that future will unfold.

Slide 7 shows another layer of technical depth to this evolving new architecture. Many of these application providers are already in real-time communications, or they are moving quickly in that direction. When one of these players states that they are going to add voice, how does that happen? Who connects it, secures it and manages QoS in an increasingly congested world. There's a perception that we can solve this congestion by throwing more bandwidth at it. While that is potentially true at the core, it is not at all the case at the edge.

Let me give you an analogy of how this process is broken down in another sector of our economy. Amazon Prime customers found out over the holiday season that unlimited logistics weren't really unlimited after all. It illustrated that there must be a reliable connection between the underlying brand promises of these application providers, and their fulfillment engines, if you will.

Look at what happened, not too long ago, with Comcast and Netflix. After years of fighting, they have finally resolved that Netflix will pay their fair share for network transport. And not surprisingly, both Amazon and Netflix have recently announced price increases as their business models evolve, and they work to protect their content and brands.

Surely these delivery models will be significantly more efficient than prior models. But they won't be unlimited, and they won't be free. We believe this is where the new cloud architecture is going. The service providers understand this. That's what Domain 2.0 and others as they move to a more centric model are doing.

They know they need to be more agile, even though they won't innovate in the cycle times of the app layer. Some level of intelligence is required to isolate the layers, and monetize the networks among a diverse set of customers and applications. This shift will unleash another major leg of capital spending, given that it will both drive sufficient improvements in productivity as well as the service provider revenue to justify the investment.

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If all of this seems abstract to you today, then I suggest you to look no further than the front page of today's Wall Street Journal, to read about the FCC's most recent proposal to create a reasonable, regulatory framework to handle this reality.

Let's bring this back to Sonus on slide 8. The world is clearly moving to real-time communications. Sonus is already embedded in the world's largest real-time communications networks. We are more relevant today than ever before, and we continue to innovate. As I mentioned in Q1, we announced a new product, the Sonus SBC 7000, which sets the standard for real-time bandwidth hungry communications like video. Sonus is also leading the effort to virtualization. Our entire SBC portfolio is already in software, and Diameter is coming next; which will make us agile, and prepared to address the changes ahead.

The functions of the SBC and Diameter Signaling Controller, or DSC, including security, policy, signaling interworking and scale are the mission critical elements that are increasingly important for networks of the future. We believe Sonus is at the right place, at the right time, with the right competencies to meet these challenges and opportunities of this generational, architectural shift that is currently taking shape.

So with that as a strategic overview and context, I'd now like to invite Mark to provide his commentary on the details surrounding our first quarter, and our outlook. Mark?

Mark T. Greenquist
Chief Financial Officer, Sonus Networks, Inc.

Thanks, Ray. The chart on slide 10 provides the year-over-year comparisons for some of the key metrics this quarter. Ray covered most of these in his opening remarks, so I'll just drill down on a couple of them to provide some additional color. I think revenue is fairly clear, so let's look at gross margins.

As you can see, we experienced a very nice improvement in gross margins this quarter. As we have often said during past earnings calls, one of the things that impacts gross margins is product mix, and this quarter was no exception.

In Q1, we realized a larger percentage of revenue from incremental software license sales, and from one customer in particular who also happened to be a 10% customer this quarter. As I'll discuss in a moment, we expect to see improvements in gross margin over time, reflecting higher software mix and greater operational efficiencies. Full year 2014 gross margins are absolutely expected to be up this year, versus prior year. But, I do want to reiterate that product mix can occasionally have an outsized impact on gross margins in any given quarter. And the first quarter was one of these sorts of quarters.

One other data point to bring to your attention is the progress we've made on driving operational leverage. All operating margins are positive this quarter, and with continued revenue growth, gross margin improvement, and disciplined OpEx, we expect to see our operating margins continue to improve.

Turning now to slide 11, here you have our first quarter performance compared to our guidance and year ago quarter, all very, very positive by comparison. We're especially pleased with the sooner-than-expected shift to non-GAAP profitability in this first quarter. Let's turn to our outlook which is provided on slide 12.

For the second quarter, we expect $73 million to $75 million of total revenue. Of this, approximately $33 million to $35 million is expected to be SBC or Diameter related revenue. This revenue guidance takes into considerations some large SBC projects expected to score in the second half, which are not included in our second quarter outlook.

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We expect gross margins of 65% to 65.5% and OpEx of $45 million to $46 million, which allows for some additional R&D, as well as sales and marketing investment for the PT business in particular. This leads to our expectation for non-GAAP profit of $0.01 based on approximately 251 million diluted shares outstanding. Our full year guidance remains unchanged from the guidance that we provided you on our last call in February.

Let's spend a little time on slide 13, which I think helps paint the picture for the turnaround that is taking shape here at Sonus, and a big part of what interested me particularly in this opportunity. We are starting to see the operating leverage potential in our business come to fruition. Revenue has grown nicely over the past two years.

It's important to look under the covers here because there's been some fairly major changes in our revenue profile over this time. Going back to 2012, 2/3 of our revenue was still derived from the legacy business. That was a tough situation when the SBC business while growing very nicely was just too small to compensate for the legacy drag.

That changed in 2013 when the growth of our SBC business coupled with a full year's worth of revenue from the acquisition of NET helped drive revenue growth of 9% as the legacy business continued to shrink. This year in 2014 we expect the SBC business will be more than half of total revenue and we expect top line growth of 8%. As we mentioned at our Investor Day last month, we are targeting double digit revenue growth of 10% beginning in 2015 as the mix further moves away from the legacy business and toward our SBC and Diameter growth businesses.

Gross margins paint a similar picture. We drove a lot of cost out of the business in 2013 in particular in the services side of the house. And this resulted in a nice improvement in gross margins from 2012 to 2013 of over 350 basis points. In 2014, we expect gross margins to continue to improve by at least a point or two points as our growth business becomes a greater percentage of the total and we see a higher mix of software in the total amount as was the case in this first quarter.

This software trend is particularly driven by two things: one nearer-term and one longer-term. The first is a higher degree of software licenses sold on existing deployments. That's happening today and is the main reason that our gross margins are up so strongly in this first quarter versus a year ago as I explained just a moment ago.

The second is a higher degree of software as the virtualization portfolio is adopted by more customers. We expect that this will take some time to play out in our results as customers work through their architecture choices but both of these drivers should have a very positive effect on gross margins going forward.

The third story here is about operating margins. You can see a nice improvement from 2012 to 2013 as we were able to hold OpEx flat year-to-year while also fully absorbing the OpEx burn in ET. Coupled with revenue growth and expanding gross margins, we delivered a non-GAAP operating profit in 2013. We expect operating margins to continue to improve in 2014 and we're targeting double digits of 10% in 2015 as we stated during our Investor Day.

All these dynamics create a healthy environment for earnings which were positive in 2013 and are expected to more than double in 2014. And if these trends continue, as we expect, you can imagine this is just the beginning of our earnings leverage.

Now with that I'd like to open it up to questions. So, operator, could you please prompt the listeners for questions? Thank you.

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QUESTION AND ANSWER SECTION

Operator: Absolutely, sir. Thank you. [Operator Instructions] Our first question comes from the line of James Kisner from Jefferies. Please proceed with your question.

James M. Kisner
Analyst, Jefferies LLC

Q

All right. Thanks, guys, and congratulations on a very nice Q1.

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Thanks, James.

James M. Kisner
Analyst, Jefferies LLC

Q

So just the first question, yes, the question around SBC trajectories, so I mean I think you alluded to some large projects in the back half but obviously given your guidance for Q2, you are talking about flattish total SBC number and then it really has to step up pretty substantially in Q3 and Q4. I'm just kind of wondering perhaps a little more insight into that? And would you expect to even say at this point should Q4 be bigger than your Q3? Just help us to understand the dynamics going on there in SBC revenue through the year. Thanks.

Mark T. Greenquist
Chief Financial Officer, Sonus Networks, Inc.

A

Yes, sure. This is Mark. Yes, the linearity for SBC in the year is probably not as good as you know versus prior years. I think we're, versus our guidance, probably closer to 40% than kind of our normal 45% for the first half. We do have some big deals and while we're very focused, as I mentioned, on our Q2 and believe that there could be some in there, but we've sort of handicapped that in our guidance because we do want to give a confident number. In the second half of the year, just looking at the pipeline, we have a very healthy pipeline. We've got some big deals in there.

As Ray mentioned, we just introduced a product, the SBC 7000, which is very much targeted at the type of customer who tends to buy in lumpy amounts and so we're feeling pretty good about the second half of the year. And obviously caveat that with, we've to see the CapEx in the environment continue to kind of progress as it has, some of these trends that Ray discussed, but with the product portfolio that we've got, the additions that we've made to it, pipeline that we're working on and deals frankly that we were able to close in the first quarter and have a good first quarter as you mentioned, I think we're feeling pretty good about the year.

James M. Kisner
Analyst, Jefferies LLC

Q

Great. Could you, and recognizing you're deliberately not disclosing some of these things specifically, perhaps you could talk about the enterprise versus service provider mix in Q1? Where did that net out? I kind of assume that enterprise is getting richer in the mix, if linearity is getting better. Maybe that's incorrect. And I'd also love to hear a little bit more if you could talk about services mix? It clearly went down sequentially for this company overall. Is that consistent across both legacy and growth products? Thank you.

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Mark T. Greenquist
Chief Financial Officer, Sonus Networks, Inc.

A

Yes. So, with enterprise certainly year-over-year that would continue to see very good progress there, I would say in the first quarter the enterprise mix is not as rich as we've seen prior and I think that's not necessarily because there's a problem with enterprise, it's because we had a very, very good service provider success in the first quarter. And as you look at 10% customers and such, you're going to see a very large, greater than 10% customer in the first quarter. So that probably skewed a bit that ratio, but I think that over the course of the year we're going to continue to see progress on the enterprise side. And we've got good traction there.

With regard to the services mix, sequentially, yes, that would be expected to be lower. I mean, if you go back over the last couple of years you're going to always see the fourth quarter have a better services mix or a higher services amount of revenue and then typically Q1 through Q3 pretty much averages at a bit lower than the fourth quarter, but fourth quarter is seasonally strong here, always has been, it's both product and service related. So, nothing out of the ordinary there, and frankly as I look forward with regard to the services business, feel quite good about that. We see good attach on the SBC side and as we expected, and we even discussed this during the Investor Day, good stickiness with regard to the legacy maintenance as well.

James M. Kisner
Analyst, Jefferies LLC

Q

Okay. And then one really quick last one. Are you guys considering a reverse split at this point, I mean there's clearly some shareholders who just can't – potential shareholders who can't own you just because your stock price is below $5, you've got positive earnings now. Like, is there anything to keep you from doing a reverse split at some point here? Thanks. I'll pass it.

Mark T. Greenquist
Chief Financial Officer, Sonus Networks, Inc.

A

We would always look at everything that we can think of that's going to benefit the shareholders in value. And I think if we concluded that, that particular tactic was appropriate, we'd put it to the board and the board would put it to the shareholders and you guys would decide. But I think you saw from our actions in the first quarter, particularly with the spot secondary offering we did and the big buyback we're looking at everything we can think of to enhance value here. Above and beyond just focusing extremely hard on hitting the key operational metrics, which I think end of the day are going to be the most important drivers.

James M. Kisner
Analyst, Jefferies LLC

Q

Great. Thanks very much.

Operator: Thank you, Mr. Kisner. Continuing on, our next question comes from the line of Subu Subrahmanyan from The Juda Group. Please go ahead, sir.

Subu Subrahmanyan
Analyst, The Juda Group

Q

Thank you. Mark, maybe first.

Mark T. Greenquist
Chief Financial Officer, Sonus Networks, Inc.

A

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Hey, Subu, how are you doing?

Subu Subrahmanyan
Analyst, The Juda Group

Q

On 10% customers, could you clarify how many 10% customers you had, and who they were if you don't mind? And then.

Mark T. Greenquist
Chief Financial Officer, Sonus Networks, Inc.

A

Yes. There was one, I'll just hit that one really, really fast. There was one. It was AT&T.

Subu Subrahmanyan
Analyst, The Juda Group

Q

Okay. Got it. And can you tell us what percentage of revenue they represented?

Mark T. Greenquist
Chief Financial Officer, Sonus Networks, Inc.

A

28%.

Subu Subrahmanyan
Analyst, The Juda Group

Q

Okay, got it. And then, Ray, you talked about the SBC 7000, and obviously we're still in the middle of the enterprise ramp, there's virtualization, there's an opportunity, but when you look at these pieces, is there a way to kind of rank order, what the growth drivers look like for this year, and in connection could you talk about the SBC? Just the visibility for the ramp for the second half, I know you addressed that recently, obviously we have to go from about $68 million in the first half to $100 million in the second half. And are these deals that you already have won with clear deployment schedules in the second half if you can talk about what the pieces, how the pieces break up into that second half ramp.

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Yes, so, Subu, thanks for your question. I'll answer the second one first, as best I can, and then ask if you would just clarify the front end, I'll be happy to answer the first question as well. But on the visibility for SBC in the second half, no I wouldn't characterize this as deals we've won, but as we're building a business and it's maturing, we do see a good bit of predictable follow-on business as Mark indicated. There is some level of software secondary load, as people move to greater densities.

So some of that gives us better visibility, but otherwise, no, we're engaged strategically with virtually all the large Tier 1s, and a number of large enterprises, some of these have timing risks associated with them because they're in the hands of either say a linked deployment, or they're part of a broader architectural shift, and so we're just a component of that. So there are some timing issues, but I feel very comfortable that from the strategic positioning of SBCs in the new architecture, and the strategic positioning of Sonus as a leader in the SBC sector, I feel really good about our outlook.

So that's how I view the second half ramp. It is a steep ramp I acknowledge that. Mark acknowledged it in the opening with his comments as well, from the standpoint of linearity. But I do believe we're on track for a very strong growth trajectory going forward. Would you mind just restating the front end? Just I'll make sure.

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Subu Subrahmanyan
Analyst, The Juda Group

Q

Sure. Yes. The elements of things that are driving this ramp in the second half and over the next 12 months, I just was wondering when you look at the ongoing growth in enterprise, the introduction of the SBC 7000, which obviously will drive the search provider business, virtualization – is there a way to rank order the pieces that drive growth over the next 12 months?

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Okay. Great. Thanks. Well, the SBC 7000, we're seeing very, very strong take-up there especially amongst folks that have loved our SBC 9000. The SBC 7000 has everything there and then some, obviously it doesn't have the TDM interfaces but some of those strengths of the SBC 9000 are less strategic to us now than they were, say, three years or four years ago. Has tremendous density, has the 10 gig interfaces, which enable the video strategy and many of these service providers are starting to see video as an imminent strategic launch and to them imminent may mean in the next year or two year. And so the SBC 7000 is resonating, and it completely changes the competitive landscape because we are materially better than every other box out there in the high end and we can prove that. And so it's our pleasure when people do a Coke and Pepsi at the high end of the market, that plays right to our strengths.

It's hard for me to handicap whether that's the most important driver, but from the standpoint of tactical selling that gives us the clearest competitive advantage that we've had in some years here. The virtualization issue is what I would call – if you're not there you can't get into the strategic dialogue of their multi-year architectures. But how quickly they pull down software centricity, it's really part of a very large puzzle. That's why I spent time in the front end of my discussion here today on the strategic shift and how important getting the right regulatory framework is and putting hooks in place.

But if you just think about what it takes to create a new architecture, just use one simple thing as a proxy: you mobilize the Internet with an iPhone and within weeks you realize that you've unleashed something that you can barely control because unlimited access was going to run over carriers. But it took years to put the architecture in place to be able to put meters into pricing plans because architectures are complicated. So when I refer to the intelligence required in order to actually see the hooks required to do these new net neutrality propositions and to see bandwidth and reserve bandwidth and to comply with SLAs, virtualization is a huge piece of that. The SBC and the Signaling architectures are a huge piece of that. And so strategically it's probably virtualization. Tactically, it's probably SBC 1000, SBC 2000, SBC 7000, with obviously a SBC 5000 component in as well. Is that helpful?

Subu Subrahmanyan
Analyst, The Juda Group

Q

Yes. It is. Thank you.

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Thank you, Subu. Do you have any other questions or follow-ons?

Subu Subrahmanyan
Analyst, The Juda Group

Q

No. I'll pass it on right now. Thank you.

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Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Okay. Well, we look forward to seeing you later this...

Operator: Thank you, sir. Continuing on, our next question comes from the line of Mike Latimore from Northland Capital. Please proceed with your question.

Michael Latimore
Analyst, Northland Securities, Inc.

Q

Yes. Hey. Good morning. Just on, I guess, on that topic. Can you talk a little about – generally do you think the service provider category will grow at the same rate as the enterprise or do you see different rates between those two over time here?

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

We have been saying and I see no reason for this to change that the service provider is currently larger but probably growing slightly slower than the enterprise. The enterprise is being driven by BYOD and both Cisco and a Lync environmental change that is so profound in its productivity benefits in cost reduction that I think it's going to drive a rapid shift to UC in the enterprise. And while the initial onset of that without real-time doesn't require an SBC as soon as you get into real-time configuration and security issues, it drives a lot of SBC revenue with it. So my guess, Mike, is that the enterprise continues to grow slightly faster but there's still a very healthy growth on the SP side of the business.

Michael Latimore
Analyst, Northland Securities, Inc.

Q

Great, great. Okay. And just in terms of again the second half of the year SBC outlook, can you talk, maybe provide a little bit more information there. It sounds like perhaps most of the opportunity is with current customers who would purchase more products including software or is the view that you need to land some brand new customers that would have a bigger impact in the second half?

Mark T. Greenquist
Chief Financial Officer, Sonus Networks, Inc.

A

So with regard to new customers, I actually think we did quite well in the quarter and we actually had two new Tier 1 service provider customers which was good news. But if I think about the pipeline and the funnel and I look at the really big deals in there, those are going to be with existing customers that we have by and large. And like I said those deals will take some time to develop but – and especially with our new SBC 7000 product which I don't think we can emphasize enough really how excited we are about that and frankly how excited some of our customers are getting about that. We think we've got a really good chance to bring some big deals across the finish line there that we've already got visibly to.

Michael Latimore
Analyst, Northland Securities, Inc.

Q

And just some basic data here. What was the channel as a percent of revenue and then I don't know if you'll do this at this point but what was Performance Tech's contribution [indiscernible] (36:10) in total?

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Mark T. Greenquist
Chief Financial Officer, Sonus Networks, Inc.

A

So with regard to channels, channel indirect was about 18% of revenue in the quarter, and I'm sorry I did not get the second part of the question.

Michael Latimore
Analyst, Northland Securities, Inc.

Q

Just the contribution from the acquisition in the quarter?

Mark T. Greenquist
Chief Financial Officer, Sonus Networks, Inc.

A

Oh, okay. Yes, PT, it was relatively small. We had roughly $3 million, just under $3 million of total revenue and actually the nice thing was we had just over $1 million of that being Diameter.

Michael Latimore
Analyst, Northland Securities, Inc.

Q

Great, great. Okay. Congratulations. Thanks.

Mark T. Greenquist
Chief Financial Officer, Sonus Networks, Inc.

A

Thanks.

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Thanks, Mike.

Operator: Thank you. Continuing on, our next question comes from the line of Scott Thompson from FBR. Please proceed with your question.

Scott S. Thompson
Analyst, FBR Capital Markets & Co.

Q

Hey, guys, great quarter. Let's dig into a little bit here. We just talked about PT, I think the target for the year was more like a $4.5 million, $5 million type number, do we see that improving a little bit with the strong performance out of PT this quarter? Also while we're on this subject, how's that integration going, what do we expect going forward? Thanks.

Mark T. Greenquist
Chief Financial Officer, Sonus Networks, Inc.

A

So with regard to the PT numbers, in total revenue for the year, and this is included in our annual guidance; we're expecting $15 million. And then within that $15 million, we think there's $3 million of Diameter. So, having just done $1 million in the first quarter, I guess there could be some small upside there, but that remains to be seen. And if it is going to change, it's probably in this year going to be relatively small.

With regard to the integration, I actually think that that's going well. There's really three components to it. On the engineering side, we picked up a very talented engineering team. We have them being integrated into our larger

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engineering community, and obviously there the big focus is on the virtualization of the PT product going forward. And as we said when we did the announcement for the purchase, that will get done this year, and every indication is that we're going to be able to do that.

And then on just sort of the operational side, that also is going well, and I think I would say by the third quarter it will be pretty much indistinguishable with regard to how the operations and the G&A functions are run. I mean essentially the former PT business will be running within our operations, on our systems, by and large with our people.

And then on the sales front, I think this is where PT did not have a super strong go-to-market, we understood that. And I think we're making good progress on filling out the sales force with people who are going to be able to sell that product, and feel good about that.

So I think on all three of those, I'd check the box and say like that's going well. And so at this point in time, we feel like we are on track with what we wanted to accomplish in 2013, and as we said this is all about doing that, and then getting ourselves set up to really start to turning the wheel harder in 2014, I mean in 2015.

Scott S. Thompson Q
Analyst, FBR Capital Markets & Co.

Okay. Thanks for the clarification. All right, and then on the OpEx guide, it looks like OpEx is ramping nicely, I think I heard you mention on the call that there was sales and marketing that should drive much of the increase this quarter. Is that correct, and is that more sales, or marketing? Is there more promotional or is it real traction out there in the market?

Mark T. Greenquist A
Chief Financial Officer, Sonus Networks, Inc.

Actually, I mean to be really specific about it, it's a full quarter of the PT OpEx. So we closed the deal in the middle of the first quarter, we picked up a couple of million of OpEx in the first quarter, with the acquisition closing in the second quarter. It's going to be more like a $4 million number, and then I would expect like I said, over the course of time, and we integrate then that will go down. And we're going to do the same thing that we did with NET, where we will run them with the same OpEx more or less as we were running previously or specifically on the G&A side.

So yes, the little pop up is very much just getting a full quarter of PT OpEx in the numbers, as opposed to half a quarter, like we had in the first quarter.

Scott S. Thompson Q
Analyst, FBR Capital Markets & Co.

Okay, and then a couple of comments on demand here. It sounds like AT&T showed up this quarter, CenturyLink has been around for a little while. Were they strong in the quarter as well, what's the linearity look like, from your top five quarter-over-quarter there? Also, it sounds like there was a lot more software in the mix over the last quarter and especially in first quarter. Is there any way that we could get some ideas around software bookings; would that be relevant here, what are your thoughts around that? Thank you.

Raymond P. Dolan A
President, Chief Executive Officer & Director, Sonus Networks, Inc.

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Sure, Scott. This is Ray. Yes, AT&T was very strong in the quarter, Mark indicated actually 28% of our product revenue. They've always been a large customer for us, they've always been strategic. I'm very excited that we have the opportunity to make them even more strategic going forward. I won't comment on CenturyLink, it wasn't a top ten customer, but I will say they, like every other large player in the world, they see the trends that I outlined early on. They know, since we're embedded in their networks for many, many years, deeply strategic to their voice strategies. They know where we are architecturally, what our capabilities are to scale into the cloud architectures where everyone's going. So I'm very pleased with our progress in Tier 1s because I think it's strategic.

In order for us to be the company that I set as our goals and for myself personally, we need to be massively strategic to Tier 1 service providers as they play their natural role in this new architecture going forward. They need to shift their business models which means they need to find more intelligent network architectures. And we are front and center in discussions with all of them. And probably the hardest thing to do is to handicap the pace of those changes. But I'm very excited that those discussions are very strategic with all of those players. So I wouldn't call any one of them out in isolation.

On the software mix, I don't know that we'll be able to break out software bookings, per se. But what Mark was talking about on the two drivers, it's additional software density for established deployments and for new deployments that are going in closer to software centric as we virtualized our policy assets, virtualized our SBC assets, and eventually later this year we will virtualize the new Diameter assets that we've acquired and integrate them. You'll see more and more software centricity later this year. We'll give some thoughts to whether or not we can break those out. And as we think about guiding for next year, we'll do that.

But those are just early trends that he was trying to indicate to help you think through our margin expansion because we did have a very, very strong margin quarter, driven mostly by software content. We expect some, but not all of that, to continue in the next couple of quarters. But it is an important driver for us on our profitability to not only control our OpEx but to grow revenue, expand margins, and on those three pillars, hit the double-digit goals that we have for operating income next year. Okay?

Scott S. Thompson
Analyst, FBR Capital Markets & Co.

Q

Okay...

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

So I hope that's helpful, Scott. Okay. Thank you.

Scott S. Thompson
Analyst, FBR Capital Markets & Co.

Q

It is. I'll get back in queue. Thanks so much.

Operator: Thank you, Mr. Thompson. Now continuing on our next question comes from the line of Paul Silverstein from Cowen & Company. Please proceed with your question, sir.

Paul J. Silverstein
Analyst, Cowen & Co. LLC

Q

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Good morning. I'm going to apologize as usual if you've already been asked or volunteered this. I do apologize if I waste yours and others time. So, Ray, given your last comment, do you have the numbers in terms of how many of the Tier 1, the top 50 or so, you penetrated to date with SBCs?

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.
A

I don't have that handy, Paul. And it needs to be all of them over time. We're making great progress, but I can't break that out at this point.

Paul J. Silverstein
Analyst, Cowen & Co. LLC
Q

Okay. And I trust the same would be true that you don't have the information on Fortune 100 or Fortune 500 enterprise?

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.
A

Yes. I don't have that number handy either, right.

Paul J. Silverstein
Analyst, Cowen & Co. LLC
Q

Okay. Let me move on. In terms of Diameter Signaling, did you volunteer how many deals were out there at present, as a percent?

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.
A

No, we didn't describe the funnel.

Paul J. Silverstein
Analyst, Cowen & Co. LLC
Q

Can you share that with us.

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.
A

Well, we didn't describe it quantitatively in the funnel but we're making good progress. The Diameter market in general is very, very vibrant. It's also very much in flux. I think you saw in F5's release that they're seeing more growth there. There is some volatility into what used to be a Tekelec only market. Now Oracle-Tekelec. A lot of bidding is being done. The market is starting to mature. It was initially a 2G, 3G to 4G handoff kind of market in wireless. It's now moving more pervasively across the wireless landscape. Our assets are strong not only in a pure-play Diameter but having the SS7 which some people view as legacy is an incredibly important asset when you're bridging 2G networks, 3G networks into 4G networks which will probably be going on for many years to come.

So I love our engagement but we're not prepared to predict a funnel and a number of engagements. And if you remember going back to how many trials began three years ago I'm very reluctant to go back to those discussions in these forums, Paul. So we'll keep you posted. I am pleased that we did report earlier in case you missed it that we had about $1 million of Diameter revenue in our SBC's numbers this morning. That will be lumpy and obviously those revenues came from work that had been done prior to our acquisition of PT. That was part of the

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pipeline that we bought together with the technology diligence verified what we needed to know prior to the acquisition. And we'll continue to monetize that. I hope that's responsive.

Paul J. Silverstein
Analyst, Cowen & Co. LLC

Q

Yes. And, Ray, on the two new Tier 1s that you all referenced, any insight you could share with us in terms of the nature of the wins? Are you sole supplier or are you the primary or are these U.S., are they non-U.S.? What are the applications? Anything you can share with us?

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Yes. This is – which two Tier 1s are you talking about, Paul? Are you talking about the Asia-Pac one and the North America one? Yes, so the North America one.

Paul J. Silverstein
Analyst, Cowen & Co. LLC

Q

Go ahead.

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Okay. Okay. So the North America one was in fact a Tier 1 early on SIP trunking win, and we're very pleased with that because that can become a flywheel in and of itself as a large I'll say non-U.S. North American carrier starts to embrace SIP trunking. In the Tier 1 Asia-Pac SP architecture it was a 4G interconnect deployment. So for peering and interconnect on 4G, and it is an emerging Northern Asia service provider that we won in a competitive bake-off against all of the standard suspects, so very proud of both of those, relatively small, early drawdowns, but very large funnel opportunity and a great reference accounting region in both cases.

Paul J. Silverstein
Analyst, Cowen & Co. LLC

Q

All right, and one last question for me, if I may. From a competitive standpoint, I appreciate you just introduced the SBC 7000, but looking at Oracle in particular, are you seeing continued attenuation in terms of their competitive efforts? Or is it just a function of improved effort on your own part?

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Yes. Technically I wouldn't call it attenuation, but I don't think they have anywhere near the passion and focus on this category. They are such a multi-headed beast, and we get up every morning knowing that our goal is to own this intelligent layer, which is, we believe, strongly correlated to the combination of SBC and Signaling assets. Our SBC 7000, there's no way they can match our scalability and interworking capabilities and policy assets that we've hardened over 15 years. And I don't even think they understand fully the strategic benefit of focusing in that direction. So I don't know attenuation is the right word, Paul, but I know that we're starting to create open water. And we will never look back on our leadership at the high end of the market. And that being in software will allow us to scale seamlessly down to the low end of the market. And just like in the Internet, a lot of low end deployments grew into high end deployments because initial applications for Internet access proliferated way beyond just LAN/WAN connectivity and opened up with the browser into a whole new world. Exactly the same things are going to happen in Session architectures, and we are ready for that diversity of applications to come at us and embrace the application layer above us and the layer 2, layer 3 transport below us.

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Paul J. Silverstein
Analyst, Cowen & Co. LLC

Q

And, Ray, if I may, the large traditional players, Alcatel-Lucent, Ericsson, Nokia, what if anything are you seeing from them?

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

We continue to engage all of them as potential partners. We've successfully partnered with some of them, but very modestly so. A number of them, I don't know that this is the right forum to go into list-by-list players, but a lot of them are in this space because it's right in the middle. It's too important a space to ignore. But it's too small a space to own for companies of that size. And we are perfectly positioned to create open water against all competitive platforms. And being in software, meet them in the marketplace and together with strong Tier 1 interest, which is the only way partnerships really ever happen, is when directed by Tier 1s. Because otherwise these companies just never understand how to be a good partner.

And I've been part of them, by the way. So I understand exactly how it feels to be in these large organizations. You sell your own stuff unless you're directed otherwise. So for us, it's going after Tier 1 wins, being a good partner, and being willing to partner up at the point of sale. And we're making great progress there, but we'll see. It takes a long time to really manifest itself.

Paul J. Silverstein
Analyst, Cowen & Co. LLC

Q

I appreciate that, I'll pass it on. Thank you.

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Thanks, Paul.

Operator: Thank you, sir. [Operator Instructions] Our next question comes from the line of [ph] Steve Cohen from Provo Partners (51:25). Please proceed with your question.

Q

Hi. I'd like to ask a few questions on the quarter. Revenues split between enterprise and service providers, revenue contributions from the top five customers, head count at the end of the quarter; look, more strategically, Ray, you've spoken about hitting double digit operating margins in 2015, based on the operating leverage story that Mark summarized previously. Where do you see that going over the longer-term? Is Sonus eventually going to be much more like a software company, able to generate operating margins in the high 20%-s, 30%? Or is that just not the business model the company has in mind, you can be much more like a more traditional value-added equipment supplier with operating margins in mid-teens?

Mark T. Greenquist
Chief Financial Officer, Sonus Networks, Inc.

A

Yes. So, just on a couple of the statistics that you were looking for. Top five customers, around 42%. Obviously, the one greater than 10% customer, AT&T, at 28%, was dominant there. Headcount at the end of the quarter, we picked up like an additional 100 people or so with PT acquisition. So that was at about 1100 heads, which again,

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we've been talking at length about OpEx spending discipline. That's all around head count discipline; you seg one, you do exact same with the others, so, I think we continue to be mindful there of making sure we're getting as much productivity out of everybody as we can, and making sure that they're focused on the right things, which is specifically the growth businesses.

With regard to the operating margin question?

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Let me take a shot at that, because I think, [ph] Steve (53:22), you were beyond just a 10% framework. You were kind of looking at what our strategic framework is going forward. First, this first quarter gives me greater confidence than even we had when we laid out in San Francisco, this notion of next year being a 10% 10% year; with 10% top line growth, and 10% operating income. If you remember, Mark kind of laid out, at a pretty high level that if we were to – again all these numbers are so dynamic that you can get there in five different ways. But if you just took a 65% margin company, and therefore in order to get to 10% you can't spend more than 55% in OpEx, that's possible if you keep OpEx flat and get to a 330 year. I think that were sort of the numbers that we used in San Francisco.

As this plays out, we'll know what next year looks like much more finely than just say 300 going to 330. But that was the 10% and 10% framework. A 68%-point margin first quarter would give us a lot more head room to either beat 10% or allow us to invest more OpEx and still have that same framework. So we need to let a few more quarters play out before we actually guide to next year, obviously. But something above 65% gives us either a better operating income profile next year or more OpEx to spend.

And we're going to spend the money, if in fact the growth opportunities and the strategic benefits of spending that money are in the best long-term interests of the company. Okay? But what we also want to do is be a quarter-to-quarter company because we're still a long way from having the strong credibility that many other companies have out in the investment community of being able to both deliver our quarter and to create long-term shareholder value. So I'm passionately pursuing both of those leading this business.

Now with regard to the longer-term framework, I think it's too soon to tell, [ph] Steve (55:09). But the trends are moving towards greater software centricity. I'm not sure there's going to be too many value-added equipment suppliers that you use as the longer-term framework. I think most of them, I don't know exactly who you're talking about, but those folks that sound like the big 10s right now, their models are under tremendous pressure right now. And the few pockets of profitability that they have are even under more pressure. So I would say we're going to trend towards software centricity. Whether or not that turns into a 20% to 30% model, it's too soon to tell because if you prematurely pursue operating income and don't get the growth, then you don't create enough value. So we're going to progressively get to double digit. I'm very proud of our ability to forecast that next year, and I'm very comfortable that this first quarter gives me more confidence than I had even two months ago for us to get there. And we'll share more as we learn more, okay?

Q

Great. Thanks. Mark, can you give the enterprise, service providers revenue split for the quarter?

Mark T. Greenquist
Chief Financial Officer, Sonus Networks, Inc.

A

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Yes. The enterprise as a percentage of SBC was lower in the quarter. But as we have discussed prior on the call, we're happy with our progress in enterprise. But the dominance of the service provider business in the first quarter, particularly with the greater than 10% customer that we had, drove that percentage down year-over-year. And we also, frankly, had last Q1 in 2013, we did have a very, very, large enterprise deal. So that was a very large enterprise deal in Q1 2013. It was a very, very large service provider deal in Q1 2014. So I don't think that direct comparison between those two quarters really is indicative of the trends in the business.

Q

In the past you've been specifically disclosing the product revenue breakout between enterprise and service provider. Is that no longer going to be provided?

Mark T. Greenquist
Chief Financial Officer, Sonus Networks, Inc.

A

No. I think – no. We're not making any change there and if we look at it, it was around I think 20% or so. But that's again down significantly versus Q1 2013. I just frankly wouldn't be alarmed if that's big deal dynamics from one quarter to the next quarter.

Q

Just looking for the number.

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Yes. Thanks, [ph] Steve (57:42).

Operator: And thank you, [ph] Mr. Cohen (57:45). Our final question comes from the line of Dmitry Netis from William Blair & Company. Please proceed with your question.

Mark T. Greenquist
Chief Financial Officer, Sonus Networks, Inc.

A

Hey, Dmitry.

Dmitry G. Netis
Analyst, William Blair & Co. LLC

Q

Thank you for squeezing me in. A clarification and more of a high-level question, but on the clarification, guys, the Tier 1 customers you mentioned – the two that you mentioned this quarter, one from A-Pac and one from North America. Is that in addition to the three mentioned in the December quarter? I think you had an MSO and then two non-U.S. Tier 1s. Just...

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Yes.

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Dmitry G. Netis
Analyst, William Blair & Co. LLC
Q

Trying to get a perspective on that dynamic.

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.
A

Yes, it is, Dmitry.

Mark T. Greenquist
Chief Financial Officer, Sonus Networks, Inc.
A

Yes. They're incremental.

Dmitry G. Netis
Analyst, William Blair & Co. LLC
Q

That's great. And then high-level, just sort of trying to understand, I think there was a question asked on software. But as you guys speak about the higher degree of software license sales, can you tell us how exactly that's been taken up by your customers? Is it an attach – a software being attached to an appliance? Is it a software SBC which is a pure software sale and is that a subscription versus a perpetual license sale? If you can put a perspective on those things and maybe there's two that are just marching in side-by-side here but give us a sense of what's going on and how the pricing sort of works in that software model that you have? Thank you.

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.
A

Sure, Dmitry. This is Ray. I'll touch on the three categories you mentioned. I don't know if we'll get into the pricing model at this point. It'll probably need some time to evolve. It is the first two, yes; the third one, no. What I mean by that is there was definitely some software attached to existing deployments as people that build low density deployments are starting to find that they're succeeding in their business models and we're growing with them. So that's the kind of razor/razor blade discussion that we've had in the past. I would say we're seeing early indications that the blade business is in fact going to add to our future. I don't want to overstate that but I want to be clear about that and that is a very positive early indication from my perspective.

Second is, are they deploying structurally software-based SBC or PSX? Yes, there is some level of, particularly on the policy side, the opportunity for us to embed our policy engine in software from the get-go in some larger multi-vendor deployments. And this speaks very, very nicely for the ability for us to be the intelligence layer in large transport deployment projects. Okay. That's why I spent the time on the front end talking about where we fit in the stack as it evolves. And that's been our architecture from the beginning. It's less so that software-only based SBC. We've had some work with that. I'm very pleased that I think we're world class in that. But there's two places that exist which is on the very low end SWe. While we're doing some activity there, it's not contributing meaningfully to our revenue. It's low density. You would not think it would contribute meaningfully to our revenue. And then on the high end side, I think it's going to take a little while before it goes all the way through and that becomes a principal purchase pattern for customers. So I hope that's answering your question on that. Did you have any follow-ups on that?

Dmitry G. Netis
Analyst, William Blair & Co. LLC
Q

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Just, yes, if I could. It did help sort of put it in perspective. The SWe and the virtual PSX, are those perpetual license sales, for the most part?

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Yes, for the most part. When we do these licenses, they're perpetual license architectures.

Dmitry G. Netis
Analyst, William Blair & Co. LLC

Q

Great. And then on the blade architecture, when you insert software into the appliance, what functions are you bringing on in that software? Just maybe take a Tier 1 that's adding that software content to their existing platform, and if you could use them as a reference to describe what exactly they're bringing on. Thank you, Ray.

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Okay. So for those that are adding on software content, they're really just driving greater density which means they have greater capacity. Okay? So if they've deployed a SBC 5000 with 50% head room, they fill up that head room. They may not go to 100% because they may want the geo-redundancy of additional deployments. But they're starting to drive things towards capacity. What's great is that we scale all the way up to the capacity of the box whereas we've said for a long time, some of our competitors, while they quote a capacity, they end up tapping out because of the mixture of applications that people are using in today's marketplace. So that it's really capacity is the answer to your question.

Dmitry G. Netis
Analyst, William Blair & Co. LLC

Q

Very well. Thank you very much.

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Thanks, Dmitry.

Operator: Thank you, sir. And gentlemen, we do have a follow-up question from the line of Scott Thompson from FBR. Mr. Thompson, you're live once again.

Scott S. Thompson
Analyst, FBR Capital Markets & Co.

Q

Hey, guys. Just one other quick thought, buybacks, there's a massive amount in the quarter. There's a little bit of allocation left. With the stock at these levels, would you continue to be aggressive there, or maybe even open up to the possibility of additional buybacks? Thoughts would be great. Thanks so much.

Mark T. Greenquist
Chief Financial Officer, Sonus Networks, Inc.

A

So as we mentioned, we still have $40 million left on the existing program and I think we're going to continue to execute that program. As that gets tapped out we'll be going back to the board and having a further discussion on that. Like I said during – I think one of the questions we will be looking at everything that [audio gap] (63:34) continue to enhance value.

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Operator: And thank you, gentlemen, for taking that question. We'll turn it back to the speakers once again for their concluding remarks.

Raymond P. Dolan

President, Chief Executive Officer & Director, Sonus Networks, Inc.

Thank you, operator. This is Ray Dolan. For everybody on the call I want to express my gratitude for your support of Sonus and for every one of my teammates that may be on this call and I'll be [audio gap] (63:59). This was a great quarter, a proud quarter to be part of Sonus. We're very excited to be part of the strategic future of our biggest Tier 1 customers and many, many enterprise customers as all of us in the aggregate move this industry towards a cloud-centric architecture. Thanks for your time today. We look forward to meeting you in the market over the next couple of months.

Operator: Thank you, sir. Ladies and gentlemen, that does conclude the conference call for today. We thank you all for your participation and ask that you please disconnect. Thank you once again. Have a great day.

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