UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 27, 2015

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 001-34115

SONUS NETWORKS, INC.
(Exact name of Registrant as specified in its charter)

DELAWARE	**04-3387074**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4 Technology Park Drive, Westford, Massachusetts 01886
(Address of principal executive offices) (Zip code)

(978) 614-8100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of April 21, 2015, there were 49,444,160 shares of the registrant's common stock, $0.001 par value, outstanding.

SONUS NETWORKS, INC.
FORM 10-Q
QUARTER ENDED MARCH 27, 2015
TABLE OF CONTENTS

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, which are subject to a number of risks and uncertainties. All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q, including statements regarding our future results of operations and financial position, business strategy, plans and objectives of management for future operations, plans for future cost reductions and plans for future product development and manufacturing are forward-looking statements. Without limiting the foregoing, the words "anticipates", "believes", "could", "estimates", "expects", "intends", "may", "plans", "seeks" and other similar language, whether in the negative or affirmative, are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We therefore caution you against relying on any of these forward-looking statements.

Important factors that could cause actual results to differ materially from those in these forward-looking statements are discussed in Part I, Items 2 and 3, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosures About Market Risk," respectively, and Part II, Item 1A, "Risk Factors," of this Quarterly Report on Form 10-Q. Also, any forward-looking statement made by us in this Quarterly Report on Form 10-Q speaks only as of the date on which this Quarterly Report on Form 10-Q was first filed. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise.

References in this Quarterly Report on Form 10-Q to “Sonus,” “Sonus Networks,” “Company,” “we,” “us,” and “our” are to Sonus Networks, Inc. and its subsidiaries, collectively, unless the context requires otherwise.

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

SONUS NETWORKS, INC.
Condensed Consolidated Balance Sheets
(in thousands, except share and per share data)
(unaudited)

	March 27, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 18,092	$ 41,157
Marketable securities	65,708	64,443
Accounts receivable, net of allowance for doubtful accounts of $46 at March 27, 2015 and $58 at December 31, 2014	55,612	62,943
Inventory	25,147	22,114
Deferred income taxes	1,037	991
Other current assets	15,085	15,239
Total current assets	180,681	206,887
Property and equipment, net	18,329	17,845
Intangible assets, net	31,547	22,594
Goodwill	40,310	39,263
Investments	29,045	42,407
Deferred income taxes	1,001	1,043
Other assets	3,081	2,596
	$ 303,994	$ 332,635
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 5,322	$ 7,497
Accrued expenses	22,254	32,149
Current portion of deferred revenue	40,386	36,967
Current portion of long-term liabilities	750	794
Total current liabilities	68,712	77,407
Deferred revenue	8,207	8,009
Deferred income taxes	1,802	1,623
Other long-term liabilities	4,042	5,246
Total liabilities	82,763	92,285
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, $0.01 par value per share; 5,000,000 shares authorized, none issued and outstanding	—	—
Common stock, $0.001 par value per share; 120,000,000 shares authorized; 49,443,729 shares issued and outstanding at March 27, 2015; 49,357,033 shares issued and outstanding at December 31, 2014	49	49
Additional paid-in capital	1,226,319	1,226,226
Accumulated deficit	(1,010,706)	(991,347)
Accumulated other comprehensive income	5,569	5,422
Total stockholders' equity	221,231	240,350
	$ 303,994	$ 332,635

See notes to the unaudited condensed consolidated financial statements.

SONUS NETWORKS, INC.
Condensed Consolidated Statements of Operations
(in thousands, except per share data)
(unaudited)

	Three months ended	
	March 27, 2015	March 28, 2014
Revenue:		
Product	$ 24,865	$ 45,140
Service	25,280	25,602
Total revenue	50,145	70,742
Cost of revenue:		
Product	11,648	13,663
Service	9,267	10,656
Total cost of revenue	20,915	24,319
Gross profit	29,230	46,423
Operating expenses:		
Research and development	19,339	18,972
Sales and marketing	19,765	19,581
General and administrative	9,224	11,186
Acquisition-related	107	1,306
Restructuring	(339)	1,169
Total operating expenses	48,096	52,214
Loss from operations	(18,866)	(5,791)
Interest income, net	28	35
Other income, net	45	2,335
Loss before income taxes	(18,793)	(3,421)
Income tax provision	(566)	(532)
Net loss	$ (19,359)	$ (3,953)
Loss per share		
Basic	$ (0.39)	$ (0.07)
Diluted	$ (0.39)	$ (0.07)
Shares used to compute loss per share:		
Basic	49,423	53,080
Diluted	49,423	53,080

See notes to the unaudited condensed consolidated financial statements.

SONUS NETWORKS, INC.
Condensed Consolidated Statements of Comprehensive Loss
(in thousands)
(unaudited)

	Three months ended	
	March 27, 2015	March 28, 2014
Net loss	$ (19,359)	$ (3,953)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	42	94
Unrealized gain (loss) on available-for sale marketable securities, net of tax	105	(10)
Other comprehensive income, net of tax	147	84
Comprehensive loss, net of tax	$ (19,212)	$ (3,869)

See notes to the unaudited condensed consolidated financial statements.

Table of Contents

SONUS NETWORKS, INC.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Three months ended	
	March 27, 2015	March 28, 2014
Cash flows from operating activities:		
Net loss	$ (19,359)	$ (3,953)
Adjustments to reconcile net loss to cash flows provided by operating activities:		
Depreciation and amortization of property and equipment	2,575	2,917
Amortization of intangible assets	1,647	1,029
Stock-based compensation	4,820	5,774
Loss on disposal of property and equipment	12	55
Deferred income taxes	155	176
Changes in operating assets and liabilities:		
Accounts receivable	7,302	22,973
Inventory	(3,034)	2,337
Other operating assets	(75)	(259)
Accounts payable	(2,115)	(1,551)
Accrued expenses and other long-term liabilities	(13,014)	(7,754)
Deferred revenue	3,610	(538)
Net cash (used in) provided by operating activities	(17,476)	21,206
Cash flows from investing activities:		
Purchases of property and equipment	(2,512)	(3,287)
Business acquisition, net of cash acquired	(10,147)	(34,010)
Purchases of marketable securities	(1,649)	—
Maturities/sales of marketable securities	13,518	87,646
Net cash (used in) provided by investing activities	(790)	50,349
Cash flows from financing activities:		
Proceeds from sale of common stock in connection with employee stock purchase plan	1,668	1,197
Proceeds from exercise of stock options	1,687	3,444
Payment of tax withholding obligations related to net share settlements of restricted stock awards	(1,995)	(1,530)
Repurchase of common stock	(6,084)	(75,385)
Principal payments of capital lease obligations	(20)	(24)
Net cash used in financing activities	(4,744)	(72,298)
Effect of exchange rate changes on cash and cash equivalents	(55)	91
Net decrease in cash and cash equivalents	(23,065)	(652)
Cash and cash equivalents, beginning of year	41,157	72,423
Cash and cash equivalents, end of period	$ 18,092	$ 71,771
Supplemental disclosure of cash flow information:		
Interest paid	$ 8	$ 2
Income taxes paid	$ 151	$ 751
Income tax refunds received	$ 20	$ —
Supplemental disclosure of non-cash investing activities:		
Capital expenditures incurred, but not yet paid	$ 881	$ 384
Business acquisition purchase consideration - assumed equity awards	$ —	$ 1,671

See notes to the unaudited condensed consolidated financial statements.

SONUS NETWORKS, INC.
Notes to Condensed Consolidated Financial Statements
(unaudited)

(1) BASIS OF PRESENTATION

Business

Sonus Networks, Inc. (“Sonus” or the “Company”) is a leading provider of networked solutions for communications service providers (e.g., telecommunications, wireless and cable service providers) and enterprises to help them advance, protect and unify their communications and improve collaboration. Sonus helps many of the world's leading communications service providers and enterprises embrace the next generation of Session Initiation Protocol ("SIP") and 4G/LTE (Long Term Evolution)-based solutions, including Voice over IP ("VoIP") video and Unified Communications ("UC") through secure, reliable and scalable Internet Protocol ("IP") networks. Sonus' products include session border controllers ("SBCs"), diameter signaling controllers ("DSCs"), policy/routing servers, media and signaling gateways and network analytics tools.

The Company utilizes both direct and indirect sales channels to reach its target customers. Customers and prospective customers in the service provider space are traditional and emerging communications service providers, including long distance carriers, local exchange carriers, Internet service providers, wireless operators, cable operators, international telephone companies and carriers that provide services to other carriers. Enterprise customers and target enterprise customers include financial institutions, retailers, state and local governments, and other multinational corporations.

Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting only of normal recurring items, necessary for their fair presentation with accounting principles generally accepted in the United States of America ("GAAP") and with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC").

Interim results are not necessarily indicative of results for a full year or any future interim period. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (the "Annual Report") filed with the SEC on February 25, 2015.

We effected a one-for-five reverse stock split of our issued, outstanding and authorized common stock, which became effective as of the commencement of trading on the NASDAQ Global Select Market on January 30, 2015. Unless otherwise indicated, all references herein to shares outstanding and share issuances have been adjusted to give effect to our January 2015 reverse stock split.

On January 2, 2015 (the "Treq Asset Acquisition Date"), the Company acquired from Treq Labs, Inc. ("Treq") certain assets related to Treq's business of designing, developing, marketing, selling, servicing and maintaining software defined networking ("SDN") technology, SDN controller software and SDN management software (the "SDN Business"). The financial results of the SDN Business are included in the Company's condensed consolidated financial statements starting on the Treq Asset Acquisition Date.

On February 19, 2014 (the "PT Acquisition Date"), the Company completed the acquisition of Performance Technologies, Incorporated ("PT"). The financial results of PT are included in the Company's condensed consolidated financial statements starting on the PT Acquisition Date.

Significant Accounting Policies

The Company's significant accounting policies are disclosed in Note 2 to the Consolidated Financial Statements included in the Annual Report. There were no material changes to the significant accounting policies during the three months ended March 27, 2015.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Sonus and its wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates and Judgments

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and judgments relied upon in preparing these consolidated financial statements include accounting for business combinations, revenue recognition for multiple element arrangements, inventory valuations, assumptions used to determine the fair value of stock-based compensation, intangible assets and goodwill valuations, including impairments, legal contingencies and recoverability of Sonus' net deferred tax assets and the related valuation allowances. Sonus regularly assesses these estimates and records changes in estimates in the period in which they become known. Sonus bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, which include cash equivalents, marketable securities, investments, accounts receivable, accounts payable, convertible subordinated debt and other long-term liabilities, approximate their fair values.

Operating Segments

The Company operates in a single segment. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker in making decisions regarding resource allocation and assessing performance. To date, the chief operating decision maker has made such decisions and assessed performance at the company level, as one segment. The Company's chief operating decision maker is its President and Chief Executive Officer.

Recent Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"). ASU 2014-15 provides guidelines determining when and how to disclose going concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. ASU 2014-15 applies to all entities and is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. The adoption of ASU 2014-15 is not expected to have a material impact on the Company's consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, *Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force)* (“ASU 2014-12”). ASU 2014-12 clarifies that entities should treat performance targets that can be met after the requisite service period of a share-based payment award as performance conditions that affect vesting. Therefore, an entity would not record compensation expense (measured as of the grant date without taking into account the effect of the performance target) related to an award for which transfer to the employee is contingent upon the entity’s satisfaction of a performance target until it becomes probable that the performance target will be met. ASU 2014-12 does not contain any new disclosure requirements. ASU 2014-12 was effective for the Company on January 1, 2015. The adoption of ASU 2014-12 did not have a material impact on the Company's condensed consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”) its final standard on revenue from contracts with customers. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the revenue model to contracts within its scope, an entity identifies the contract(s) with a customer, identifies the performance obligations in the contract, determines the transaction price, allocates the transaction price to the performance obligations in the contract and recognizes revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 applies to all contracts with customers that are within the scope of other topics in the FASB Accounting Standards Codification ("ASC"). Certain of ASU 2014-09's provisions also apply to transfers of nonfinancial assets, including in-substance nonfinancial assets that are not an output of an entity's ordinary activities (i.e., property plant and equipment; real estate; or intangible assets). Existing accounting guidance applicable to these transfers has been amended or superseded. In April 2015, the FASB tentatively decided to defer the original effective date of interim and annual reporting periods beginning after December 15, 2015 by one year. As a result, public entities would not be required to apply the new revenue standard until annual reporting periods beginning after December 15, 2017. The Company is currently assessing the potential impact of the adoption of ASU 2014-09 on its condensed consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* ("ASU 2014-08"), which amends the definition of discontinued operations in ASC 205-20 and requires entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued operations criteria. The new guidance eliminates the previous criteria that the operations and cash flows of the component that have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction. The new guidance also eliminates the previous criteria that the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction. Instead, ASU 2014-08 requires discontinued operations treatment for disposals of a component or group of components that represents a strategic shift that has or will have a major impact on an entity's operations or financial results. ASU 2014-08 requires entities to reclassify assets and liabilities of a discontinued operation for all comparative periods presented in the statement of financial position. In addition, ASU 2014-08 requires that an entity disclose in its statement of cash flows, for all periods presented, either: (1) operating and investing cash flows or (2) depreciation and amortization, capital expenditures and significant operating and investing non-cash items related to the discontinued operation. ASU 2014-08 was effective prospectively for all disposals (except disposals classified as held for sale before the adoption date) or components initially classified as held for sale in periods beginning on or after December 15, 2014. The adoption of ASU 2014-08 did not have a material impact on the Company's condensed consolidated financial statements.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(2) BUSINESS ACQUISITIONS

Treq Labs, Inc.

On the Treq Asset Acquisition Date, the Company acquired from Treq its SDN Business.. The SDN Business provides solutions that optimize networks for voice, video and UC for both enterprise and service provider customers. The Company believes that the acquisition of the SDN Business will accelerate Sonus' delivery of its SDN strategy. In consideration for the acquisition of the SDN Business, Sonus paid $10.1 million in cash at the Treq Asset Acquisition Date, with an additional consideration payment of $750,000 due on July 2, 2015 and a second additional consideration payment of $750,000 due on January 4, 2016. The Company also entered into an Earn-Out Agreement, dated as of January 2, 2015, with Treq and Karl F. May, the seller representative in the transaction (the "Earn-Out Agreement"), under which the Company has agreed to issue up to an aggregate of 1.3 million shares of common stock over a three-year period subsequent to the Treq Asset Acquisition Date if aggregate revenue thresholds of at least $60 million are achieved by the SDN Business during that period, and up to an aggregate of an additional 2.2 million shares (3.5 million shares in total) if aggregate revenue thresholds of at least $150 million are achieved by the SDN Business during that period. If the initial revenue thresholds are not met, no shares will be issued. Based on historical and forecasted sales, no incremental contingent consideration was recorded initially as of the Treq Asset Acquisition Date or through March 27, 2015. Any shares issued pursuant to the Earn-Out Agreement will be issued in reliance on the exemption from registration available under Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act") and will be subsequently registered for resale under the Securities Act by the Company.

The transaction has been accounted for as a business combination and the financial results of the SDN Business have been included in the Company's condensed consolidated financial statements for the period subsequent to its acquisition.

As of March 27, 2015, the valuation of the identifiable intangible assets remained preliminary. The Company is in the process of finalizing its valuation, which it plans to complete in the second quarter of fiscal 2015. Based on the preliminary purchase price allocation, the Company recorded $1.0 million of goodwill, primarily due to expected synergies between the combined companies and expanded market opportunities. The goodwill is not deductible for tax purposes.

A summary of the preliminary purchase consideration for the SDN Business is as follows (in thousands):

Fair value of consideration transferred:		
Cash, net of cash acquired	$	10,147
Unpaid purchase consideration		1,500
Fair value of total consideration	$	11,647
Fair value of assets acquired and liabilities assumed:		
Intangible assets:		
In-process research and development	$	9,100
Developed technology		1,500
Goodwill		1,047
	$	11,647

The valuation of the acquired intangible assets is inherently subjective and relies on significant unobservable inputs. The Company used an income approach to preliminarily value the acquired in-process research and development and developed technology intangible assets. The valuation for each of these intangible assets was based on estimated projections of expected cash flows to be generated by the assets, discounted to the present value at discount rates commensurate with perceived risk. The valuation assumptions take into consideration the Company's estimates of technology attrition and revenue growth projections. The Company will begin to amortize the in-process research and development intangible asset at the time that the related products become generally available. Once the products become generally available, the Company will amortize the identifiable intangible assets in relation to the expected cash flows from the individual intangible assets over their respective useful lives (see Note 6).

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

The actual results of the SDN Business for the period since the Treq Asset Acquisition Date were not material to the Company's financial results. The Company has not provided pro forma information as the results of the SDN Business are not material to the Company's financial results.

Performance Technologies, Incorporated

On the PT Acquisition Date, the Company acquired all of the outstanding common stock of PT for cash consideration of $35.0 million, or $3.75 per share of PT common stock. This acquisition has enabled Sonus to expand its solutions portfolio with signaling technology and acquire expertise to enable mobile service providers to offer new real-time multimedia services through their mobile infrastructure. Delivering these services across the LTE next-generation mobile networks will require adoption of the next-generation signaling technology known in the industry as Diameter Signal. The acquisition of PT has allowed Sonus to diversify its product portfolio with an integrated, virtualized Diameter and SIP-based solution and deliver strategic value to service providers seeking to offer new multimedia services through mobile, cloud-based, real-time communications.

The transaction has been accounted for as a business combination and the financial results of PT have been included in the Company's condensed consolidated financial statements starting on the PT Acquisition Date.

The Company finalized the valuation of acquired assets, identifiable intangible assets and certain accrued liabilities in the fourth quarter of 2014. The Company recorded $8.8 million of goodwill, primarily due to expected synergies between the combined companies and expanded market opportunities. The goodwill is not deductible for tax purposes.

A summary of the allocation of the purchase consideration for PT is as follows (in thousands):

Fair value of consideration transferred:		
Cash, net of cash acquired	$	35,022
Fair value of equity awards assumed		1,671
Fair value of total consideration	$	36,693
Fair value of assets acquired and liabilities assumed:		
Marketable securities	$	2,315
Other current assets		9,337
Property and equipment		2,251
Intangible assets:		
Developed technology		13,200
Customer relationships		3,900
Goodwill		8,781
Current liabilities		(2,762)
Other long-term liabilities		(329)
	$	36,693

The valuation of the acquired intangible assets is inherently subjective and relies on significant unobservable inputs. The Company used an income approach to preliminarily value the acquired customer relationships and developed technology intangible assets. The valuation for each of these intangible assets was based on estimated projections of expected cash flows to be generated by the assets, discounted to the present value at discount rates commensurate with perceived risk. The valuation assumptions take into consideration the Company's estimates of contract renewal, technology attrition and revenue growth projections. The Company is amortizing the identifiable intangible assets in relation to the expected cash flows from the individual intangible assets over their respective useful lives (see Note 6).

The Company has not provided pro forma information as the results of PT are not material to the Company's financial results.

Acquisition-Related Expenses

Acquisition-related expenses include those expenses related to acquisitions that would otherwise not have been incurred by

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

the Company. These expenses include professional and services fees, such as legal, audit, consulting, paying agent and other fees. These expenses also include cash payments to certain former PT executives under their respective PT change of control agreements. The amount recorded in the three months ended March 27, 2015 relates to professional fees in connection with the acquisition of the SDN Business. The amount recorded in the three months ended March 28, 2014 represents professional and services fees and expenses related to cash payments to certain former PT executives under their respective PT change of control agreements in connection with the PT acquisition.

The components of acquisition-related costs included in the Company's results of operations for the three months ended March 27, 2015 and March 28, 2014 are as follows (in thousands):

	Three months ended	
	March 27, 2015	March 28, 2014
Professional and services fees	$ 107	$ 1,057
Change of control agreements	—	249
	$ 107	$ 1,306

Sale of Multi-Protocol Server Business

On June 20, 2014 (the "MPS Sale Date"), the Company sold its PT Multi-Protocol Server ("MPS") business for $2.0 million to an affiliate of Sunhillo Corporation, comprised of $0.2 million of inventory, $0.1 million of fixed assets, $0.2 million of deferred revenue and $1.9 million of PT goodwill allocable to the MPS business. The Company had acquired the MPS business in connection with the acquisition of PT. The results of operations of the MPS business are excluded from the Company's condensed consolidated results after the MPS Sale Date.

(3) EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares outstanding during the period. For periods in which the Company reports net income, diluted net income per share is determined by using the weighted average number of common and dilutive common equivalent shares outstanding during the period unless the effect is antidilutive.

The calculations of shares used to compute basic and diluted loss per share are as follows (in thousands):

	Three months ended	
	March 27, 2015	March 28, 2014
Weighted average shares outstanding—basic	49,423	53,080
Potential dilutive common shares	—	—
Weighted average shares outstanding—diluted	49,423	53,080

Options to purchase the Company's common stock, unvested shares of restricted stock, unvested performance-based stock awards and shares in connection with future purchases under the Company's Amended and Restated 2000 Employee Stock Purchase Plan, as amended (the "ESPP"), aggregating 9.4 million shares for the three months ended March 27, 2015 and 9.1 million shares for the three months ended March 28, 2014 have not been included in the computation of diluted loss per share because their effect would have been antidilutive.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(4) CASH EQUIVALENTS AND INVESTMENTS

The Company invests in debt instruments, primarily U.S. government-backed, municipal and corporate obligations, which management believes to be high quality (investment grade) credit instruments.

During the three months ended March 28, 2014, the Company sold $45.9 million of its available-for-sale securities and realized gross gains aggregating $46,000, which are included as a component of Other income (expense), net, in the Company's condensed consolidated statement of operations for that period. The Company did not realize any gross losses on these sales. In addition, $41.7 million of the Company's available-for-sale securities matured during the three months ended March 28, 2014 and were redeemed upon maturity. The Company did not sell any of its available-for-sale securities during the three months ended March 27, 2015.

Investments with continuous unrealized losses for one year or greater at March 27, 2015 were nominal. Since the Company currently does not intend to sell these securities and does not believe it will be required to sell any securities before they recover in value, it does not believe these declines are other-than-temporary.

On a quarterly basis, the Company reviews its marketable securities and investments to determine if there have been any events that could create a credit impairment. Based on its reviews, the Company does not believe that any impairment existed with its current holdings at March 27, 2015.

The amortized cost, gross unrealized gains and losses and fair value of the Company's marketable debt securities and investments at March 27, 2015 and December 31, 2014 were comprised of the following (in thousands):

	March 27, 2015			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Cash equivalents	$ 1,391	$ —	$ —	$ 1,391
Marketable securities				
Municipal obligations	$ 1,523	$ 1	$ —	$ 1,524
U.S. government agency notes	4,154	1	—	4,155
Corporate debt securities	45,325	4	(40)	45,289
Commercial paper	8,190	—	—	8,190
Certificates of deposit	6,550	—	—	6,550
	$ 65,742	$ 6	$ (40)	$ 65,708
Investments				
Municipal obligations	$ 2,197	$ 3	$ (1)	$ 2,199
U.S. government agency notes	2,300	2	—	2,302
Corporate debt securities	24,051	14	(21)	24,044
Certificates of deposit	500	—	—	500
	$ 29,048	$ 19	$ (22)	$ 29,045

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

	December 31, 2014			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Cash equivalents	$ 11,653	$ —	$ —	$ 11,653
Marketable securities				
Municipal obligations	$ 1,273	$ 1	$ (1)	$ 1,273
U.S. government agency notes	4,016	—	—	4,016
Corporate debt securities	40,921	2	(59)	40,864
Commercial paper	9,340	—	—	9,340
Certificates of deposit	8,950	—	—	8,950
	$ 64,500	$ 3	$ (60)	$ 64,443
Investments				
Municipal obligations	$ 2,702	$ 1	$ (3)	$ 2,700
U.S. government agency notes	2,300	—	(1)	2,299
Corporate debt securities	35,897	4	(86)	35,815
Commercial paper	1,093	—	—	1,093
Certificates of deposit	500	—	—	500
	$ 42,492	$ 5	$ (90)	$ 42,407

The Company's available-for-sale debt securities classified as Investments in the condensed consolidated balance sheets at March 27, 2015 and December 31, 2014 had maturity dates after one year but within two years or less from the balance sheet date.

Fair Value Hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. The three-tier fair value hierarchy is based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is as follows:

Level 1. Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2. Level 2 applies to assets or liabilities for which there are inputs that are directly or indirectly observable in the marketplace, such as quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets).

Level 3. Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The following table shows the fair value of the Company's financial assets at March 27, 2015 and December 31, 2014. These financial assets are comprised of the Company's available-for-sale debt securities and reported under the captions Cash and cash equivalents, Short-term investments and Investments in the condensed consolidated balance sheets (in thousands):

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

	Total carrying value at March 27, 2015	Fair value measurements at March 27, 2015 using: Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents	$ 1,391	$ 1,391	$ —	$ —
Marketable securities				
Municipal obligations	$ 1,524	$ —	$ 1,524	$ —
U.S. government agency notes	4,155	—	4,155	—
Corporate debt securities	45,289	—	45,289	—
Commercial paper	8,190	—	8,190	—
Certificates of deposit	6,550	—	6,550	—
	$ 65,708	$ —	$ 65,708	$ —
Investments				
Municipal obligations	$ 2,199	$ —	$ 2,199	$ —
U.S. government agency notes	2,302	—	2,302	—
Corporate debt securities	24,044	—	24,044	—
Certificates of deposit	500	—	500	—
	$ 29,045	$ —	$ 29,045	$ —

	Total carrying value at December 31, 2014	Fair value measurements at December 31, 2014 using: Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents	$ 11,653	$ 11,653	$ —	$ —
Marketable securities				
Municipal obligations	$ 1,273	$ —	$ 1,273	$ —
U.S. government agency notes	4,016	—	4,016	—
Corporate debt securities	40,864	—	40,864	—
Commercial paper	9,340	—	9,340	—
Certificates of deposit	8,950	—	8,950	—
	$ 64,443	$ —	$ 64,443	$ —
Investments				
Municipal obligations	$ 2,700	$ —	$ 2,700	$ —
U.S. government agency notes	2,299	—	2,299	—
Corporate debt securities	35,815	—	35,815	—
Commercial paper	1,093	—	1,093	—
Certificates of deposit	500	—	500	—
	$ 42,407	$ —	$ 42,407	$ —

The Company's investments have been valued with the assistance of valuations provided by third-party pricing services, as derived from such services' pricing models. Inputs to the models may include, but are not limited to, reported trades, executable bid and asked prices, broker/dealer quotations, prices or yields of securities with similar characteristics, benchmark curves or information pertaining to the issuer, as well as industry and economic events. The pricing services may use a matrix approach, which considers information regarding securities with similar characteristics to determine the valuation for a security. The Company is ultimately responsible for the condensed consolidated financial statements and underlying estimates. Accordingly, the Company assesses the reasonableness of the valuations provided by the third-party pricing services by

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

reviewing actual trade data, broker/dealer quotes and other similar data, which are obtained from quoted market prices or other sources.

(5) INVENTORY

Inventory consists of the following (in thousands):

	March 27, 2015	December 31, 2014
On-hand final assemblies and finished goods inventories	$ 22,312	$ 19,285
Deferred cost of goods sold	2,835	2,829
	$ 25,147	$ 22,114

(6) INTANGIBLE ASSETS AND GOODWILL

The Company's intangible assets at March 27, 2015 and December 31, 2014 consist of the following (dollars in thousands):

March 27, 2015	Weighted average amortization period (years)	Cost	Accumulated amortization	Net carrying value
In-process research and development	7.00	$ 9,100	$ —	$ 9,100
Intellectual property	5.00	999	999	—
Developed technology	6.24	23,780	6,300	17,480
Customer relationships	5.57	10,040	5,174	4,866
Internal use software	3.00	730	629	101
	6.05	$ 44,649	$ 13,102	$ 31,547

December 31, 2014	Weighted average amortization period (years)	Cost	Accumulated amortization	Net carrying value
Intellectual property	5.00	$ 999	$ 999	$ —
Developed technology	6.18	22,280	5,193	17,087
Customer relationships	5.57	10,040	4,695	5,345
Internal use software	3.00	730	568	162
	5.75	$ 34,049	$ 11,455	$ 22,594

Amortization expense for intangible assets for the three months ended March 27, 2015 and March 28, 2014 was as follows (in thousands):

	Three months ended		
	March 27, 2015	March 28, 2014	Statement of operations classification
Developed technology	$ 1,107	$ 570	Cost of revenue - product
Customer relationships	479	398	Sales and marketing
Internal use software	61	61	Cost of revenue - product
	$ 1,647	$ 1,029	

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

The Company did not record amortization expense in connection with the in-process research and development intangible asset because the related products were not yet generally available. The Company will begin to amortize the in-process research and development intangible asset at the time that the related products become generally available and will amortize the identifiable intangible assets in relation to the expected cash flows from the individual intangible assets over their respective useful lives; the Company will begin to amortize this intangible asset at the time that the related products become generally available, which the Company expects will occur in the second and fourth quarters of 2015. Estimated future amortization expense for the Company's intangible assets at March 27, 2015 is as follows (in thousands):

Years ending December 31,	
Remainder of 2015	$ 5,895
2016	7,001
2017	7,338
2018	4,589
2019	3,554
Thereafter	3,170
	$ 31,547

The changes in the carrying value of the Company's goodwill in the three months ended March 27, 2015 and March 28, 2014 were as follows (in thousands):

Balance at January 1, 2015	
Goodwill	$ 42,369
Accumulated impairment losses	(3,106)
	39,263
Acquisition of SDN Business	1,047
Balance at March 27, 2015	$ 40,310
Balance at March 27, 2015	
Goodwill	$ 43,416
Accumulated impairment losses	(3,106)
	$ 40,310

Balance at January 1, 2014	
Goodwill	$ 35,485
Accumulated impairment losses	(3,106)
	32,379
Acquisition of PT	8,193
Balance at March 28, 2014	$ 40,572
Balance at March 28, 2014	
Goodwill	$ 43,678
Accumulated impairment losses	(3,106)
	$ 40,572

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(7) ACCRUED EXPENSES

Accrued expenses consist of the following (in thousands):

	March 27, 2015	December 31, 2014
Employee compensation and related costs	$ 10,246	$ 20,042
Other	12,008	12,107
	$ 22,254	$ 32,149

(8) RESTRUCTURING ACCRUAL

The Company recorded a credit of $0.3 million to restructuring expense in the three months ended March 27, 2015 that it had previously accrued in connection with its earlier restructuring initiative. The reversal of approximately $272,000 for facilities was recorded in connection with the settlement with the landlord of the Company's Dulles, Virginia facility for an amount that was lower than had previously been accrued. The Company also reversed approximately $67,000 in connection with changes in the amounts of severance ultimately paid to certain individuals.

The Company recorded $1.2 million of restructuring expense in the three months ended March 28, 2014 for severance and related costs in connection with reducing its workforce.

The table below summarizes the restructuring accrual activity for the three months ended March 27, 2015 (in thousands):

	Balance at January 1, 2015	Adjustments for changes in estimate	Cash payments	Balance at March 27, 2015
Severance	$ 1,682	$ (67)	$ (1,290)	$ 325
Facilities	3,652	(272)	(1,135)	2,245
	$ 5,334	$ (339)	$ (2,425)	$ 2,570

The Company expects to complete the restructuring payments related to severance in the fourth quarter of fiscal 2015 and the payments related to facilities in fiscal 2016. The current portion of the restructuring accrual is included as a component of Accrued expenses in the Company's condensed consolidated balance sheets. The portion of restructuring payments due more than one year from the balance sheet date is included in Other long-term liabilities in the Company's condensed consolidated balance sheets. The long-term portions of accrued restructuring were $0.9 million at March 27, 2015 and $1.9 million at December 31, 2014.

(9) DEBT

On June 27, 2014, the Company entered into a credit agreement (the "Credit Agreement") by and among the Company, as Borrower, Bank of America, N.A. ("Bank of America"), as Administrative Agent, Swing Line Lender and L/C Issuer, and the other lenders from time to time party thereto. The Credit Agreement provides for a revolving credit facility of up to $40 million and provides that the Company may select the interest rates under the credit facility equal to (1) the Eurodollar Rate (which is defined as the rate per annum equal to the London Interbank Offered Rate plus 1.5% per annum) for a Eurodollar Rate Loan; and (2) the highest of (a) the Federal Funds Rate plus 1/2 of 1%, (b) the rate of interest in effect on the borrowing date as publicly announced from time to time by Bank of America as its prime rate, and (c) the monthly Eurodollar Rate plus 1%. The Company will pay a 0.15% commitment fee on the unused commitments available for borrowing.

The obligations of the Company under the Credit Agreement are guaranteed by Sonus International, Inc., Sonus Federal, Inc., Network Equipment Technologies, Inc. ("NET") and PT (collectively, together with the Company, the "Loan Parties") pursuant to a Master Continuing Guaranty and are secured by the assets of the Loan Parties pursuant to a Security and Pledge Agreement.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

The credit facility will become due on June 27, 2015, subject to acceleration upon certain specified events of default. The Company did not have any amounts outstanding under the Credit Agreement at March 27, 2015.

(10) COMMON STOCK REPURCHASES AND UNDERWRITTEN OFFERING

Stock Buyback Program

On July 29, 2013, the Company announced that its Board of Directors had authorized a stock buyback program to repurchase up to $100 million of the Company's common stock from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares repurchased will be determined by the Company's management based on its evaluation of market conditions and other factors. The Company may elect to implement a 10b5-1 repurchase program, which would permit shares to be repurchased when the Company might otherwise be precluded from doing so under insider trading laws. The Company has not implemented such a 10b5-1 repurchase program to date. The stock buyback program may be suspended or discontinued at any time. The stock buyback program is being funded using the Company's working capital. During the three months ended March 27, 2015, the Company spent $6.1 million, including transaction fees, to repurchase and retire 0.4 million shares of its common stock under the stock buyback program. During the three months ended March 28, 2014, the Company spent $0.1 million, including transaction fees, to repurchase and retire 7,700 shares of its common stock under the stock buyback program. At March 27, 2015, the Company had $16.8 million remaining under the stock buyback program for future repurchases.

Underwritten Offering

On March 20, 2014, the Company announced the commencement of an underwritten public offering of 7.5 million shares of its common stock on behalf of Galahad Securities Limited and its affiliated entities (collectively, the "Legatum Group"). The underwriter of the offering was granted a 30-day option to purchase up to 1.125 million additional shares from the Legatum Group. The Legatum Group received all the proceeds from the underwritten offering; no shares in the underwritten offering were sold by Sonus or any of its officers or directors. Sonus purchased 4.3 million shares of its common stock from the underwriter for $17.4410 per share, the price equal to the price paid by the underwriter to the Legatum Group in the underwritten offering, for a total of $75.3 million, including transaction fees of $0.3 million. This repurchase was not completed under the Company's stock buyback program. Sonus funded the share repurchase with cash on hand. The repurchased shares were retired upon completion of the transaction.

(11) STOCK-BASED COMPENSATION PLANS

Stock Incentive Plan

The Company's 2007 Stock Incentive Plan, as amended (the "2007 Plan"), provides for the award of options to purchase the Company's common stock ("stock options"), stock appreciation rights ("SARs"), restricted common stock awards ("RSAs"), restricted common stock units ("RSUs"), performance-based stock awards ("PSAs"), performance-based stock units ("PSUs") and other stock-based awards to employees, officers, directors (including those directors who are not employees or officers of the Company), consultants and advisors of the Company and its subsidiaries.

Executive and Board of Directors Equity Arrangements

In connection with the Company's annual incentive program, 22 executives of the Company were given the choice to receive all or half of their fiscal year 2015 bonuses (the "2015 Bonus"), if any are earned, in the form of shares of the Company's common stock (the "2015 Bonus Shares"). Each executive could also elect not to participate in this program and to earn his or her 2015 Bonus, if any, in the form of cash. The amount of the 2015 Bonus, if any, for each executive shall be determined by the Compensation Committee of the Board of Directors of the Company (the "Compensation Committee"). The number of shares of the Company's common stock that will be granted to those executives who elected to receive their 2015 Bonus entirely in the form of shares of common stock will be calculated by dividing an amount equal to 1.5 times each executive's 2015 Bonus earned by $20.55, the closing price of the Company's common stock on January 2, 2015. The number of shares of the Company's common stock that will be granted to those executives who elected to receive one-half of their 2015 Bonus in the form of shares of common stock will be calculated by dividing an amount equal to 1.5 times one-half of each executive's 2015 Bonus earned by $20.55, with the cash portion equal 50% of their respective 2015 Bonus earned. The 2015 Bonus, if any, will be granted and/or paid on a date concurrent with the timing of the payout of bonuses under the Company-wide incentive bonus program and will be fully vested on the date of grant. Of the eligible executives, 16 elected to receive their entire 2015 Bonus in shares of common stock, five elected to receive 50% of their 2015 Bonus in shares of common stock and 50% in cash and one elected not to participate and instead to receive his entire 2015 Bonus in cash. As of March 27, 2015, the Company determined that the grant date criteria for the 2015 Bonus Shares had not been met; accordingly, the Company is marking to market the 2015 Bonus Shares expected to be earned and recording expense based on the aggregate fair value of the 2015 Bonus Shares at March 27, 2015. The Company did not record expense related to the 2015 Bonus Shares in the three months ended March 27, 2015 as it did not believe that any 2015 Bonus Shares would be earned. Since the 2015 Bonus Shares will not be granted until the date of the 2015 Bonus payment, there are no shares related to the 2015 Bonus reported in the restricted stock grant table below.

On January 22, 2014, 21 executives of the Company were given the choice to receive all or half of their fiscal year 2014 bonuses (the "2014 Bonus"), if any were earned, in the form of shares of the Company's common stock (the "2014 Bonus Shares"). Of the eligible executives, 17 elected to receive their entire 2014 Bonus in shares of common stock, while 4 elected to receive 50% of their 2014 Bonus in shares of common stock and 50% in cash. The 2014 Bonus Shares were granted on February 20, 2015 and vested immediately. The Company granted approximately 266,000 2014 Bonus Shares, with the number of shares granted calculated by dividing amounts equal to 1.5 times each executive's 2014 Bonus earned, as determined by the Compensation Committee, by $15.40, the closing price of the Company's common stock on January 2, 2014. The Company recorded stock-based compensation expense for the 2014 Bonus Shares from January 1, 2014 through the grant date. These shares are reported as both "Granted" and "Vested" in the RSA table below.

On March 16, 2015, the Company granted 131,250 PSUs in the aggregate to eight of its executives with both market and service conditions. The terms of the PSUs are such that up to one-third of the shares subject to the PSUs will vest on each of the first, second and third anniversaries of the date of grant (collectively, the "Vesting Dates") to the extent of achievement of the Company's total shareholder return ("TSR") compared to the TSR of the companies included in the NASDAQ Telecommunications Index for the same Performance Period, measured by the Compensation Committee at the end of each of the 2015, 2016 and 2017 fiscal years, respectively (each, a "Performance Period"). The shares determined to be earned will vest on the anniversary of the grant date following each Performance Period. Shares subject to the PSUs that fail to be earned will be forfeited. The PSUs include a market condition which requires the use of a Monte Carlo simulation approach to model future stock price movements based upon the risk-free rate of return, the volatility of each entity, and the pair-wise covariance between each entity. These results were then used to calculate the grant date fair values of the PSUs. The Company is recording expense for the PSUs through the final Vesting Date of March 16, 2018. The PSUs are reported as "Granted" in the performance-based awards table below.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

Stock Options

The activity related to the Company's outstanding stock options during the three months ended March 27, 2015 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2015	7,521,432	$ 16.47		
Granted	279,930	$ 16.28		
Exercised	(143,320)	$ 11.19		
Forfeited	(82,773)	$ 15.85		
Expired	(43,013)	$ 24.12		
Outstanding at March 27, 2015	7,532,256	$ 16.53	6.79	$ 317
Vested or expected to vest at March 27, 2015	7,083,866	$ 16.52	6.68	$ 310
Exercisable at March 27, 2015	4,175,385	$ 16.88	5.47	$ 263

The grant date fair values of options to purchase common stock granted in the three months ended March 27, 2015 were estimated using the Black-Scholes valuation model with the following assumptions:

	Three months ended March 27, 2015
Risk-free interest rate	1.46% - 1.74%
Expected dividends	—
Weighted average volatility	54.3%
Expected life (years)	5.0 - 6.0

Additional information regarding the Company's stock options for the three months ended March 27, 2015 is as follows:

	Three months ended March 27, 2015
Weighted average grant date fair value of stock options granted	$ 8.25
Total intrinsic value of stock options exercised (in thousands)	$ 902
Cash received from the exercise of stock options (in thousands)	$ 1,687

Restricted Stock Awards and Units

The activity related to the Company's RSAs for the three months ended March 27, 2015 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested balance at January 1, 2015	370,182	$ 16.74
Granted	1,411,099	$ 16.45
Vested	(287,176)	$ 17.76
Forfeited	(950)	$ 16.05
Unvested balance at March 27, 2015	1,493,155	$ 16.28

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

The activity related to the Company's unvested RSUs for the three months ended March 27, 2015 is as follows:

	Shares		Weighted Average Grant Date Fair Value
Unvested balance at January 1, 2015	—	$	—
Granted	120,215	$	16.05
Vested	—	$	—
Forfeited	—	$	—
Unvested balance at March 27, 2015	120,215	$	16.05

The total fair value of shares of restricted stock that vested during the three months ended March 27, 2015 was $5.1 million.

Performance-Based Stock Awards and Units

The activity related to the Company's PSAs for the three months ended March 27, 2015 is as follows:

	Shares		Weighted Average Grant Date Fair Value
Unvested balance at January 1, 2015	34,235	$	13.60
Granted	—	$	—
Vested	(28,610)	$	13.60
Forfeited	—	$	—
Unvested balance at March 27, 2015	5,625	$	13.60

The activity related to the Company's PSUs for the three months ended March 27, 2015 is as follows:

	Shares			Weighted Average Grant Date Fair Value
Unvested balance at January 1, 2015	—	—	$	—
Granted	131,250	14.68	$	14.68
Vested	—	—	$	—
Forfeited	—	—	$	—
Unvested balance at March 27, 2015	131,250	14.68	$	14.68

Employee Stock Purchase Plan

The Company's ESPP provides for six-month offering periods with the purchase price of the stock equal to 85% of the lesser of the market price on the first or last day of the offering period. The maximum number of shares of common stock an employee may purchase during each offering period is 500, subject to certain adjustments pursuant to the ESPP.

Stock-Based Compensation

The condensed consolidated statements of operations include stock-based compensation for the three months ended March 27, 2015 and March 28, 2014 as follows (in thousands):

	Three months ended	
	March 27, 2015	March 28, 2014
Product cost of revenue	$ 74	$ 79
Service cost of revenue	380	279
Research and development	1,358	1,313
Sales and marketing	1,016	1,249
General and administrative	1,992	2,854
	$ 4,820	$ 5,774

There is no income tax benefit for employee stock-based compensation expense for the three months ended March 27, 2015 or March 28, 2014 due to the valuation allowance recorded.

At March 27, 2015, there was $44.7 million, net of expected forfeitures, of unrecognized stock-based compensation expense related to unvested stock options, awards and units. This expense is expected to be recognized over a weighted average period of approximately three years.

(12) MAJOR CUSTOMERS

The following customers each contributed 10% or more of the Company's revenue in at least one of the three month periods ended March 27, 2015 and March 28, 2014:

	Three months ended	
	March 27, 2015	March 28, 2014
Verizon Communications Inc.	15%	*
SoftBank Corporation	11%	*
AT&T Inc.	*	28%

* Represents less than 10% of revenue

At March 27, 2015, two customers each accounted for 10% or more of the Company's accounts receivable balance, representing approximately 26% in the aggregate of the Company's accounts receivable balance. At December 31, 2014, no customer accounted for 10% or more of the Company's accounts receivable balance. The Company performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable. The Company maintains an allowance for doubtful accounts and such losses have been within management's expectations.

(13) GEOGRAPHIC INFORMATION

The Company's classification of revenue by geographic area is determined by the location to which the product is shipped or where the services are performed. The following table summarizes revenue by geographic area as a percentage of total revenue:

	Three months ended	
	March 27, 2015	March 28, 2014
United States	62%	73%
Europe, Middle East and Africa	14	13
Japan	18	8
Other Asia Pacific	4	3
Other	2	3
	100%	100%

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

International revenue, both as a percentage of total revenue and absolute dollars, may vary from one period to the next, and accordingly, historical data may not be indicative of future periods.

(14) INCOME TAXES

The Company's income tax provisions for the three months ended March 27, 2015 and March 28, 2014 reflect the Company's estimates of the effective rates expected to be applicable for the respective full years, adjusted for any discrete events, which are recorded in the period that they occur. These estimates are reevaluated each quarter based on the Company's estimated tax expense for the full year. The estimated effective rates for the three months ended March 27, 2015 and March 28, 2014 do not include any benefit for the Company's domestic losses, as the Company has concluded that a valuation allowance on any domestic benefit is required.

(15) COMMITMENTS AND CONTINGENCIES

On April 6, 2015, Ming Huang, a purported shareholder of the Company (the “Plaintiff”), filed a Class Action Complaint alleging violations of the federal securities laws (the “Complaint”) in the United States District Court for the District of New Jersey (Civil Action No. 3:15-02407), against Sonus and two of its officers, Raymond P. Dolan, the Company’s President and Chief Executive Officer, and Mark Greenquist, the Company’s Chief Financial Officer (the “Defendants”). The Plaintiff claims to represent purchasers of the Company’s common stock during the period from October 23, 2014 to March 24, 2015 and seeks unspecified damages. The principal allegation contained in the Complaint is the claim that the Defendants made misleading forward-looking statements concerning the Company’s fiscal first quarter 2015 financial performance. The Company believes that the Defendants have meritorious defenses to the allegations made in the Complaint and does not expect the results of this suit to have a material effect on its business or consolidated financial statements.

In addition, the Company is often a party to disputes and legal proceedings that it considers routine and incidental to its business. Management does not expect the results of any of these actions to have a material effect on the Company's business or consolidated financial statements.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(16) SUBSEQUENT EVENTS

As part of the Company's recently announced cost reduction review, on April 16, 2015, the Company initiated a restructuring plan that will reduce its workforce by approximately 150 positions, or approximately 12.5% of the Company's worldwide workforce. The Company expects to record approximately $5 million of restructuring expense for severance and related costs in the three months ending June 26, 2015. The Company expects that of this amount, $4.5 million will be paid in the three months ending June 26, 2015 and the remainder will be paid in the three months ending September 25, 2015.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of the financial condition and results of operations of Sonus Networks, Inc. should be read in conjunction with the condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the audited financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2014, which was filed with the U.S. Securities and Exchange Commission on February 25, 2015.

Overview

We are a leading provider of networked solutions for communications service providers (e.g., telecommunications, wireless and cable service providers) and enterprises to help them advance, protect and unify their communications and improve collaboration. We help many of the world's leading communications service providers and enterprises embrace the next generation of Session Initiation Protocol ("SIP") and 4G/LTE (Long Term Evolution)-based solutions, including Voice over IP ("VoIP") video and Unified Communications ("UC") through secure, reliable and scalable Internet Protocol ("IP") networks. Our products include session border controllers ("SBCs"), diameter signaling controllers ("DSCs"), policy/routing servers, media and signaling gateways and network analytics tools. Our solutions enable our customers to seamlessly link and leverage multivendor, multiprotocol communications systems and applications across their networks, around the world and in a rapidly changing ecosystem of IP-enabled devices such as smartphones and tablets. Our solutions help our customers realize the intended value and benefits of UC platforms by enabling disparate communications environments, commonplace in most enterprises today, to work seamlessly together. Likewise, our solutions facilitate the evolution to cloud-based delivery of UC solutions.

We utilize both direct and indirect sales channels to reach our target customers. Customers and prospective customers in the service provider space are traditional and emerging communications service providers, including long distance carriers, local exchange carriers, Internet service providers, wireless operators, cable operators, international telephone companies and carriers that provide services to other carriers. Enterprise customers and target enterprise customers include financial institutions, retailers, state and local governments, and other multinational corporations. We collaborate with our customers to identify and develop new, advanced services and applications that can help to reduce costs, improve productivity and generate new revenue.

We have traditionally sold our products principally through a global direct sales force, with additional sales support from regional channel partners throughout the world. In 2012, we launched an expanded channel partner program, the Sonus Partner Assure Program, to expand our coverage of the service provider and enterprise market opportunities. We continue to expand this program, including the introduction in 2013 of a two-tier distribution channel model.

On January 2, 2015 (the "Treq Asset Acquisition Date"), we acquired from Treq Labs, Inc. ("Treq") certain assets related to Treq's business of designing, developing, marketing, selling, servicing and maintaining software defined networking ("SDN") technology, SDN controller software and SDN management software (the "SDN Business") for $10.1 million in cash at the Treq Asset Acquisition Date, with an additional consideration payment of $750,000 due on July 2, 2015 and a second additional consideration payment of $750,000 due on January 4, 2016. The Company also entered into an Earn-Out Agreement under which we agreed to issue to the sellers up to an aggregate of 1.3 million shares of common stock over a three-year period subsequent to the Treq Asset Acquisition Date if aggregate revenue thresholds of at least $60 million are achieved by the SDN Business during that period, and up to an aggregate of an additional 2.2 million shares (3.5 million shares in total) if aggregate revenue thresholds of at least $150 million are achieved by the SDN Business during that period. If the initial revenue thresholds are not met, no shares will be issued. Based on historical and forecasted sales, no incremental contingent consideration was recorded initially as of the Treq Asset Acquisition Date or through March 27, 2015. The SDN Business provides solutions that optimize networks for voice, video and UC for both enterprise and service provider customers. We believe that the acquisition of the SDN Business will accelerate our delivery of our SDN strategy. The financial results of the SDN Business are included in our condensed consolidated financial statements for the period starting on the Treq Asset Acquisition Date.

On February 19, 2014 (the "PT Acquisition Date"), we completed the acquisition of Performance Technologies, Incorporated ("PT"), a Delaware corporation, for $3.75 per share, or approximately $35 million in cash, net of PT's cash and excluding acquisition-related costs. This acquisition has enabled us to expand and diversify our portfolio with an integrated, virtualized Diameter and SIP-based solution and deliver strategic value to service providers seeking to offer new multimedia services through mobile, cloud-based real-time communications. The financial results of PT are included in our condensed consolidated financial statements after the PT Acquisition Date.

On June 20, 2014, we sold the PT Multi-Protocol Server ("MPS") business for $2.0 million to an affiliate of Sunhillo Corporation. We had acquired the MPS business in connection with the acquisition of PT. The results of operations of the MPS business are excluded from our consolidated results after June 20, 2014.

To better align our cost structure to our current revenue expectations, we recently announced a cost reduction review. As part of this review, on April 16, 2015, we initiated a restructuring plan that will reduce our workforce by approximately 150 positions, or approximately 12.5% of our worldwide workforce. We expect to record approximately $5 million of restructuring expense for severance and related costs in the three months ending June 26, 2015. We expect that of this amount, $4.5 million will be paid in the three months ending June 26, 2015 and the remainder will be paid in the three months ending September 25, 2015. As a result of our cost reduction review, we expect to realize approximately $15 million of savings in 2015, with the majority of our cost reduction actions in place by the end of the second quarter. We expect that our savings will be generated primarily from the workforce reduction described above and from reductions in other discretionary spending. These expected savings will be offset by restructuring expense of approximately $5 million for severance and related expenses described above.

Our strategy is designed to capitalize on our technology and market lead, and build a premier franchise in multimedia infrastructure solutions. We are currently focusing our major efforts on the following aspects of our business which enable next generation communications including SIP- and 4G/LTE-based networks:

- expanding our communications network solutions to address emerging UC-, IP- and cloud-based enterprise and service providers;
- embracing the principles outlined by 3GPP, 4GPP2 and LTE architectures and delivering the industry's most advanced IMS (IP Multimedia Subsystem)-ready SBC and DSC product suites;
- leveraging our TDM (time division multiplexing)-to-IP gateway technology leadership with service providers to accelerate adoption of SIP-enabled UC services;
- expanding and broadening our customer base by targeting the enterprise market for SIP trunking and access solutions;
- providing an environment for our customers to enable real-time communication to embed into their presence on the worldwide web;expanding our global sales distribution, marketing and support capabilities, including continued expansion of our indirect sales channel program;
- actively contributing to the SIP standards definition and adoption process;
- pursuing strategic transactions and alliances;
- successfully implementing our cost reduction program; and
- delivering sustainable profitability by continuing to improve our overall performance.

We reported losses from operations of $18.9 million for the three months ended March 27, 2015 and $5.8 million for the three months ended March 28, 2014.

We reported net losses of $19.4 million for the three months ended March 27, 2015 and $4.0 million for the three months ended March 28, 2014.

Our revenue was $50.1 million in the three months ended March 27, 2015 and $70.7 million in the three months ended March 28, 2014.

Our gross profit was $29.2 million in the three months ended March 27, 2015 and $46.4 million in the three months ended March 28, 2014. Our gross profit as a percentage of revenue ("total gross margin") was 58.3% in the three months ended March 27, 2015 and 65.6% in the three months ended March 28, 2014.

Our operating expenses were $48.1 million in the three months ended March 27, 2015, compared to $52.2 million in the three months ended March 28, 2014. Our operating expenses for the three months ended March 27, 2015 include $0.1 million of acquisition-related expense and a credit for the reversal of $0.3 million of previously recorded restructuring accruals. Our operating expenses for the three months ended March 28, 2014 include acquisition-related expense of $1.3 million and $1.2 million of restructuring expense.

We recorded stock-based compensation expense of $4.8 million in the three months ended March 27, 2015, compared to $5.8 million in the three months ended March 28, 2014.

See "Results of Operations" in this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") for a discussion of these changes in our revenue and expenses.

In March 2014, we reached a settlement agreement for $2.25 million to recover a portion of our losses related to the impairment of certain prepaid royalties which we had written off in fiscal 2012. This amount is included in Other income in our condensed consolidated statement of operations for the three months ended March 28, 2014.

On January 2, 2014, Raymond P. Dolan, our President and Chief Executive Officer elected to accept shares of restricted stock in lieu of base salary for the period from January 1, 2014 through December 31, 2014. Effective September 16, 2014, Mr. Dolan's annual base salary was increased from $500,000 to $600,000. For the remainder of 2014, such increase was prorated and paid in cash and was not subject to any stock-for-cash election. We recorded stock-based compensation expense related to the 2014 Dolan Salary Shares ratably for the period of January 1, 2014 through December 31, 2014. Mr. Dolan did not elect to receive his salary in shares of our common stock for 2015.

In connection with our Company-wide annual incentive bonus program, 22 of our executives were given the choice to receive all or half of their fiscal year 2015 bonuses (the "2015 Bonus"), if any are earned, in the form of shares of our common stock (the "2015 Bonus Shares"). Each executive could also elect not to participate in this program and to earn his or her 2015 Bonus, if any, in the form of cash. The amount of the 2015 Bonus, if any, for each executive shall be determined by the Compensation Committee of our Board of Directors (the "Compensation Committee"). The number of shares of common stock that will be granted to those executives who elected to receive their 2015 Bonus entirely in the form of shares of common stock will be calculated by dividing an amount equal to 1.5 times each executive's 2015 Bonus earned by $20.55, the closing price of our common stock on January 2, 2015. The number of shares of our common stock that will be granted to those executives who elected to receive one-half of their 2015 Bonus in the form of shares of common stock will be calculated by dividing an amount equal to 1.5 times one-half of each executive's 2015 Bonus earned by $20.55, with the cash portion equal 50% of their respective 2015 Bonus earned. The 2015 Bonus, if any, will be granted and/or paid on a date concurrent with the timing of the payout of bonuses under our Company-wide incentive bonus program and will be fully vested on the date of grant. Of the eligible executives, 16 elected to receive their entire 2015 Bonus in shares of common stock, five elected to receive 50% of their 2015 Bonus in shares of common stock and 50% in cash, and one elected not to participate and instead to receive his entire 2015 Bonus in cash. As of March 27, 2015, we determined that the grant date criteria for the 2015 Bonus Shares had not been met; accordingly, we are marking to market the 2015 Bonus Shares expected to be earned and recording expense based on the aggregate fair value of the 2015 Bonus Shares at March 27, 2015. We did not record expense related to the 2015 Bonus Shares in the three months ended March 27, 2015 as we did not believe that any 2015 Bonus Shares would be earned.

On January 22, 2014, 21 of our executives were given the choice to receive all or half of their fiscal year 2014 bonuses (the "2014 Bonus"), if any were earned, in the form of shares of our common stock (the "2014 Bonus Shares"). Of the eligible executives, 17 elected to receive their entire 2014 Bonus in shares of common stock and 4 elected to receive 50% of their 2014 Bonus in shares of common stock and 50% in cash. The 2014 Bonus Shares were granted on February 20, 2015 and vested immediately. We granted approximately 266,000 2014 Bonus Shares, with the number of shares granted calculated by dividing amounts equal to 1.5 times each executive's 2014 Bonus earned, as determined by the Compensation Committee, by $15.40, the closing price of our common stock on January 2, 2014. We recorded stock-based compensation expense for the 2014 Bonus Shares from January 1, 2014 through the grant date.

On March 16, 2015, we granted 131,250 performance-based stock units ("PSUs") in the aggregate to eight of our executives with both market and service conditions. The terms of the PSUs are such that up to one-third of the shares subject to the PSUs will vest on each of the first, second and third anniversaries of the date of grant (collectively, the "Vesting Dates") to the extent of achievement of our total stockholder return ("TSR") to the TSR of the companies included in the NASDAQ Telecommunications Index for the same Performance Period, measured by our Compensation Committee at the end of each of the 2015, 2016 and 2017 fiscal years, respectively (each, a "Performance Period"). The shares determined to be earned will vest on the anniversary of the grant date following each Performance Period. Shares subject to the PSUs that fail to be earned will be forfeited. We are recording expense for the PSUs through the final Vesting Date of March 16, 2018.

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates and judgments on historical experience, knowledge of current conditions and beliefs of what could occur in the future given available information. We consider the following accounting policies to be both those most important to the portrayal of our financial condition and those that require the most subjective judgment. If actual results differ significantly from management's estimates and projections, there could be a material effect on our condensed consolidated financial statements. The significant accounting policies that we believe are the most critical include the following:

- Revenue recognition;
- Valuation of inventory;
- Loss contingencies and reserves;
- Stock-based compensation;
- Business combinations;
- Goodwill and intangible assets; and
- Accounting for income taxes.

For a further discussion of our critical accounting policies and estimates, please refer to our Annual Report on Form 10-K for the fiscal year ended December 31, 2014. There were no significant changes to our critical accounting policies from December 31, 2014 through March 27, 2015.

Results of Operations

Three months ended March 27, 2015 and March 28, 2014

Revenue. Revenue for the three months ended March 27, 2015 and March 28, 2014 was as follows (in thousands, except percentages):

	Three months ended		Decrease from prior year	
	March 27, 2015	March 28, 2014	$	%
Product	$ 24,865	$ 45,140	$ (20,275)	(44.9)%
Service	25,280	25,602	(322)	(1.3)%
Total revenue	$ 50,145	$ 70,742	$ (20,597)	(29.1)%

Product revenue is comprised of sales of our communication infrastructure products. The decrease in product revenue in the current year quarter compared to the prior year quarter was primarily the result of lower revenue recognized from sales to one of our historically largest customers due to their reduction in capital expenditures, lower sales to federal agencies and the loss of revenue related to our divestiture of the MPS division of PT in 2014.

In the three months ended March 27, 2015, approximately 24% of product revenue was from indirect sales through our channel program, compared to approximately 18% in the three months ended March 28, 2014.

In the three months ended March 27, 2015, our product revenue from sales to enterprise customers was approximately 15% of our total product revenue, compared to approximately 19% in the three months ended March 28, 2014. These sales were made both through our direct sales team and indirect sales channel partners.

We recognized product revenue totaling $2.7 million from 168 new customers in the three months ended March 27, 2015 and $3.3 million from 173 new customers in the three months ended March 28, 2014. New customers are those from whom we recognize revenue for the first time in a reporting period, although we may have had outstanding orders from such customers for several years, especially for certain multi-year projects. The timing of the completion of customer projects, revenue recognition criteria satisfaction and customer payments included in multiple element arrangements may cause our product revenue to fluctuate from one period to the next.

We expect that our product revenue in 2015 will decrease from 2014 levels, primarily due to the delayed timing of orders, lower capital expenditures by our customers and longer RFP decision cycles by our customers as they take time to determine their future network architectures. Despite our expected 2015 product revenue decrease compared to 2014, we continue to believe that our new product portfolio and increased focus on expanding our product offerings to address the emerging UC and IP-based markets, such as SBC, in both the enterprise and service provider markets is aligned with the technology strategies of our customers.

Service revenue is primarily comprised of hardware and software maintenance and support (“maintenance revenue”) and network design, installation and other professional services (“professional services revenue”).

Service revenue for the three months ended March 27, 2015 and March 28, 2014 was comprised of the following (in thousands, except percentages):

	Three months ended		Increase (decrease) from prior year	
	March 27, 2015	March 28, 2014	$	%
Maintenance	$ 20,083	$ 20,525	$ (442)	(2.2)%
Professional services	5,197	5,077	120	2.4 %
	$ 25,280	$ 25,602	$ (322)	(1.3)%

Our maintenance revenue decreased slightly in the three months period ended March 27, 2015 compared to the three months ended March 28, 2014, primarily due to customer mix, including merger activity of certain of our customers, and the timing of shipments in the current year quarter. The timing of the completion of projects for revenue recognition, customer payments and maintenance contracts may cause our services revenue to fluctuate from one period to the next. We expect that our service revenue in fiscal 2015 will decrease from fiscal 2014 levels as a result of the aforementioned customer merger activities and lower expected product sales, partially offset by the continued growth of our installed customer base.

The following customers each contributed 10% or more of our revenue in at least one of the three month periods ended March 27, 2015 and March 28, 2014:

	Three months ended	
Customer	March 27, 2015	March 28, 2014
Verizon Communications Inc.	15%	*
SoftBank Corporation	11%	*
AT&T Inc.	*	28%

* Represents less than 10% of revenue

International revenue was approximately 38% of revenue in the three months ended March 27, 2015 and approximately 27% of revenue in the three months ended March 28, 2014. Due to the timing of project completions, we expect that the domestic and international components as a percentage of our revenue will fluctuate from quarter to quarter and year to year.

Our deferred product revenue was $4.8 million at March 27, 2015 and $9.1 million at December 31, 2014. Our deferred service revenue was $43.8 million at March 27, 2015 and $35.9 million at December 31, 2014. Our deferred revenue balance may fluctuate as a result of the timing of revenue recognition, customer payments, maintenance contract renewals, contractual billing rights and maintenance revenue deferrals included in multiple element arrangements.

Cost of Revenue/Gross Margin. Our cost of revenue consists primarily of amounts paid to third-party manufacturers for purchased materials and services, royalties, manufacturing and professional services personnel and related costs, and provision for inventory obsolescence. Our cost of revenue and gross margins for the three months ended March 27, 2015 and March 28, 2014 were as follows (in thousands, except percentages):

	Three months ended		Decrease from prior year	
	March 27, 2015	March 28, 2014	$	%
Cost of revenue				
Product	$ 11,648	$ 13,663	$ (2,015)	(14.7)%
Service	9,267	10,656	(1,389)	(13.0)%
Total cost of revenue	$ 20,915	$ 24,319	$ (3,404)	(14.0)%
Gross margin				
Product	53.2%	69.7%		
Service	63.3%	58.4%		
Total gross margin	58.3%	65.6%		

The decrease in product gross margin in the three months ended March 27, 2015 compared to the three months ended March 28, 2014 was primarily due to lower product revenue against certain fixed costs coupled with the impact of $2.7 million of reserves recorded for excess and obsolete inventory in the three months ended March 27, 2015, which decreased our product gross margin in the aggregate by approximately fifteen percentage points, and product and customer mix, which decreased our product gross margin by approximately one percentage point.

The increase in service gross margin in the three months ended March 27, 2015 compared to the three months ended March 28, 2014 was primarily due to lower fixed service costs, which increased our service gross margin by approximately four percentage points and lower third-party service costs, which increased our service gross margin by approximately one percentage point.

We believe that our total gross margin over the next few years will be greater than 60%.

Research and Development Expenses. Research and development expenses consist primarily of salaries and related personnel expenses and prototype costs related to the design, development, testing and enhancement of our products. Research and development expenses for the three months ended March 27, 2015 and March 28, 2014 were as follows (in thousands, except percentages):

	March 27, 2015	March 28, 2014	Increase from prior year	
			$	%
Three months ended	$ 19,339	$ 18,972	$ 367	1.9%

The increase in research and development expenses in the three months ended March 27, 2015 compared to the three months ended March 28, 2014 is attributable to $0.5 million of higher facility expenses and $0.2 million of higher product development (third-party development, prototype and equipment) expenses, partially offset by $0.1 million of lower employee-related expenses and $0.2 million of net decreases in other research and development expenses. The decrease in employee-related expenses in the three months ended March 27, 2015 is the net result of $1.3 million of lower expense related to our Company-wide cash bonus program, partially offset by $1.2 million of higher salary and related expenses.

Some aspects of our research and development efforts require significant short-term expenditures, the timing of which may cause significant variability in our expenses. Rapid technological innovation is critical to our long-term success, and we believe that we are tailoring our investments to meet the requirements of our customers and market. We anticipate that our research and development expenses for fiscal 2015 will decrease from fiscal 2014 levels due to certain cost reduction initiatives, partially offset by our continued focus on new product development.

Sales and Marketing Expenses. Sales and marketing expenses consist primarily of salaries and related personnel costs, commissions, travel and entertainment expenses, promotions, customer trial and evaluations inventory and other marketing and sales support expenses. Sales and marketing expenses for the three months ended March 27, 2015 and March 28, 2014 were as follows (in thousands, except percentages):

	March 27, 2015	March 28, 2014	Increase from prior year	
			$	%
Three months ended	$ 19,765	$ 19,581	$ 184	0.9%

The increase in sales and marketing expenses in the three months ended March 27, 2015 compared to the three months ended March 28, 2014 is attributable to $0.5 million of higher consulting expense and $0.2 million of higher expense related to evaluation equipment at customer sites. These increases were partially offset by $0.2 million of lower employee-related expenses, $0.2 million of lower marketing expenses and $0.1 million of net decreases in other sales and marketing expenses. The decrease in employee-related expenses was the result of $0.2 million of lower stock-based compensation and $0.2 million of lower expense related to our Company-wide cash bonus program, partially offset by $0.1 million of higher salary and commissions and related expenses and $0.1 million of net increases in other employee-related expenses.

We believe that our sales and marketing expenses will decrease in fiscal 2015 from fiscal 2014 levels, primarily attributable to certain cost reduction initiatives, coupled with lower commissions expense driven by our anticipated lower revenue.

General and Administrative Expenses. General and administrative expenses consist primarily of salaries and related personnel costs for executive and administrative personnel, recruiting expenses and audit and professional fees. General and administrative expenses for the three months ended March 27, 2015 and March 28, 2014 were as follows (in thousands, except percentages):

	March 27, 2015	March 28, 2014	Decrease from prior year $	%
Three months ended	$ 9,224	$ 11,186	$ (1,962)	(17.5)%

The decrease in general and administrative expenses in the three months ended March 27, 2015 compared to the three months ended March 28, 2014 is attributable to $1.4 million of lower employee-related expenses, $0.2 million of lower professional fees, $0.1 million of lower expense related to foreign currency translation and $0.3 million of net decreases in other general and administrative expenses. The decrease in employee-related expenses resulted from $0.9 million of lower stock-based compensation expense and $0.5 million of lower expense related to our Company-wide cash bonus program.

We believe that our general and administrative expenses will decrease in fiscal 2015 compared to fiscal 2014 levels, primarily due to the expected impact of certain cost reduction initiatives.

Acquisition-Related Expenses. Acquisition-related expenses include those costs related to the acquisitions of the SDN Business in January 2015 and of PT in February 2014 that would otherwise not have been incurred by us. We recorded acquisition-related expenses of $0.1 million in the three months ended March 27, 2015 for professional fees, primarily legal fees. We recorded $1.3 million of acquisition-related expenses in the three months ended March 28, 2014, comprised of $1.1 million of professional and service fees and $0.2 million related to change of control agreements with certain PT executives.

Restructuring Expense. We reversed $0.3 million of restructuring expense in the three months ended March 27, 2015. This reversal is comprised of approximately $272,000 in connection with the settlement with the landlord of our Dulles, Virginia facility for an amount that was lower than had previously been accrued and approximately $67,000 in connection with changes in the amounts of severance ultimately paid to certain individuals.

We expect to record approximately $5 million of restructuring expense in the three months ending June 26, 2015 for severance and related costs in connection with a restructuring initiative implemented on April 16, 2015 to eliminate approximately 150 positions, or approximately 12.5% of our worldwide workforce. We expect that of this amount, $4.5 million will be paid in the three months ending June 26, 2015 and the remainder will be paid in the three months ending September 25, 2015.

Interest Income, Net. Interest income and interest expense for the three months ended March 27, 2015 and March 28, 2014 were as follows (in thousands, except percentages):

	Three months ended		Increase (decrease) from prior year	
	March 27, 2015	March 28, 2014	$	%
Interest expense	$ (76)	$ (25)	$ 51	204.0 %
Interest income	104	60	44	73.3 %
Interest income, net	$ 28	$ 35	$ (7)	(20.0)%

Interest expense in the three months ended March 27, 2015 primarily relates to the amortization of debt issuance costs in connection with our revolving credit facility. Interest expense in the three months ended March 28, 2014 primarily relates to interest on the debt assumed in connection with the acquisition of Network Equipment Technologies, Inc. ("NET"). Interest income consists of interest earned on our cash equivalents, marketable debt securities and long-term investments. The decrease in interest income, net, in the current year periods compared to the prior year periods is attributable to a lower average portfolio yield on lower amounts available to invest in the current year.

Other Income, Net. We recorded $2.25 million of income in the three months ended March 28, 2014 related to the settlement of a litigation matter in March 2014 in which we recovered a portion of our losses related to the impairment of certain prepaid royalties which we had written off in fiscal 2012. This amount is included in Other income, net, for the three months ended March 28, 2014.

Income Taxes. We recorded provisions for income taxes of $0.6 million in the three months ended March 27, 2015 and

$0.5 million in the three months ended March 28, 2014. These amounts reflect our estimates of the effective rates expected to be applicable for the respective full fiscal years, adjusted for any discrete events, which are recorded in the period that they occur. These estimates are reevaluated each quarter based on our estimated tax rate for the full fiscal year. The estimated amounts recorded do not include any benefit for our domestic losses, as we have concluded that a valuation allowance on any domestic benefit is required.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial position, changes in financial position, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Liquidity and Capital Resources

Our consolidated statements of cash flows are summarized as follows (in thousands):

	Three months ended		
	March 27, 2015	March 28, 2014	Change
Net loss	$ (19,359)	$ (3,953)	$ (15,406)
Adjustments to reconcile net loss to cash flows provided by operating activities	9,209	9,951	(742)
Changes in operating assets and liabilities	(7,326)	15,208	(22,534)
Net cash (used in) provided by operating activities	$ (17,476)	$ 21,206	$ (38,682)
Net cash (used in) provided by investing activities	$ (790)	$ 50,349	$ (51,139)
Net cash used in financing activities	$ (4,744)	$ (72,298)	$ 67,554

Our cash, cash equivalents, and short- and long-term investments totaled $112.8 million at March 27, 2015 and $148.0 million at December 31, 2014. We had cash and short-term investments held by our foreign subsidiaries aggregating approximately $6 million at March 27, 2015 and approximately $5 million at December 31, 2014. We do not intend to repatriate these funds, and as such, they are not available to fund our domestic operations. If we were to repatriate the funds, they would likely be treated as income for U.S. tax purposes, fully offset by our net operating losses. We do not believe this has a material impact on our liquidity.

On June 27, 2014, we entered into a credit agreement (the "Credit Agreement") by and among us, as Borrower, Bank of America, N.A. ("Bank of America"), as Administrative Agent, Swing Line Lender and L/C Issuer, and the other lenders from time to time party thereto. The Credit Agreement provides for a revolving credit facility of up to $40 million and provides that we may select the interest rates under the credit facility equal to (1) the Eurodollar Rate (which is defined as the rate per annum equal to the London Interbank Offered Rate ("LIBOR") plus 1.5% per annum) for a Eurodollar Rate Loan; and (2) the highest of (a) the Federal Funds Rate plus 1/2 of 1%, (b) the rate of interest in effect on the borrowing date as publicly announced from time to time by Bank of America as its prime rate, and (c) the monthly Eurodollar Rate plus 1%. We will pay a 0.15% commitment fee on the unused commitments available for borrowing. Borrowings under the Credit Agreement may be used for the general corporate purposes of the Company and its subsidiaries, including, without limitation, working capital, acquisitions, dividends and stock repurchases, to the extent permitted under the Credit Agreement. Our obligations under the Credit Agreement are guaranteed by Sonus International, Inc., Sonus Federal, Inc., NET and PT (collectively, together with us, the "Loan Parties") pursuant to a Master Continuing Guaranty and are secured by the assets of the Loan Parties pursuant to a Security and Pledge Agreement. The Credit Agreement contains affirmative, negative and financial covenants customary for financings of this type. The negative covenants include limitations on liens, indebtedness, fundamental changes, dispositions, restricted payments, investments, transactions with affiliates, certain restrictive agreements and compliance with sanctions laws and regulations. The amount of cash and cash equivalents of the Loan Parties, subject to certain exclusions, cannot be less than an aggregate amount of $100 million at any time. The credit facility will become due on June 27, 2015, subject to acceleration upon certain specified events of default, including, without limitation, payment defaults, defaults in the performance of affirmative and negative covenants, the inaccuracy of representations or warranties, bankruptcy and insolvency-related defaults, defaults relating to judgments, an ERISA Event (as defined in the Credit Agreement), the failure to pay specified indebtedness and a change of control default. We did not have any amounts outstanding under the Credit Agreement at March 27, 2015.

On July 29, 2013, we announced that our Board of Directors had authorized a stock buyback program to repurchase up to $100 million of our common stock from time to time on the open market or in privately negotiated transactions. The stock buyback program is being funded using our working capital. During the three months ended March 27, 2015, we repurchased and retired 0.4 million shares under our stock buyback program for approximately $6.1 million in the aggregate, including transaction fees. This amount is included in financing activities in our condensed consolidated statement of cash flows for the three months ended March 27, 2015.

On March 20, 2014, we announced the commencement of an underwritten public offering of 7.5 million shares of our common stock on behalf of Galahad Securities Limited and its affiliated entities (collectively, the "Legatum Group"). The underwriter of the offering was granted a 30-day option to purchase up to 1.125 million additional shares from the Legatum Group. The Legatum Group received all the proceeds from the underwritten offering; no shares in the underwritten offering were sold by us or any of our officers or directors. We purchased 4.3 million shares from the underwriter for $75.3 million in the aggregate, including $0.3 million of transaction fees. We funded the share repurchase with cash on hand. The repurchased shares were retired upon completion of the transaction.

Our operating activities used $17.5 million of cash in the three months ended March 27, 2015 and $21.2 million of cash in the three months ended March 28, 2014.

Cash used in operating activities in the three months ended March 27, 2015 was primarily the result of lower accrued expenses and other long-term liabilities and accounts payable, coupled with increases in inventory and other operating assets. These amounts were partially offset by lower accounts receivable and higher deferred revenue. The decrease in accrued expenses and other long-term liabilities was primarily related to employee compensation and related costs, including payments in connection with our Company-wide cash bonus program and payments in connection with our ongoing restructuring initiatives. The increase in our inventory primarily reflects our reduced product sales in the current year quarter compared to original projections. Our lower accounts receivable reflects collections on sales made in the prior year, coupled with lower revenue recorded in the current year quarter. Our net loss, adjusted for non-cash items such as depreciation, amortization, impairment charges and stock-based compensation, used $10.2 million of cash.

Cash provided by operating activities in the three months ended March 28, 2014 was primarily the result of lower accounts receivable and inventory, excluding the impact of acquired balances in connection with the PT acquisition. These amounts were partially offset by lower accrued expenses and other long-term liabilities, accounts payable and deferred revenue, as well as an increase in other operating assets. Our lower accounts receivable balance primarily reflects payments in the quarter as a result of our continuing focus on cash collections. Our increased focus on maintaining appropriate inventory levels was the primary contributor to lower inventory levels. The decrease in accrued expenses and other long-term liabilities was primarily related to employee compensation and related costs, including payments in connection with our Company-wide cash bonus program. Our net loss, adjusted for non-cash items such as depreciation, amortization and stock-based compensation, provided $6.0 million of cash.

Our investing activities used $0.8 million of cash in the three months ended March 27, 2015, comprised of $10.1 million of cash paid, net of cash acquired, for the acquisition of the SDN Business and $2.5 million of investments in property and equipment, partially offset by $11.9 million of aggregate maturities and sales of marketable securities.

Our investing activities provided $50.3 million of cash in the three months ended March 28, 2014, comprised of $87.6 million of maturities of marketable securities, partially offset by $34.0 million of cash paid, net of cash acquired, for the acquisition of PT on February 19, 2014 (the portion of the total cash consideration of $35.0 million that was paid through March 28, 2014) and $3.3 million of investments in property and equipment.

Our financing activities used $4.7 million of cash in the three months ended March 27, 2015, comprised of $6.1 million, including transaction fees, for the repurchase of common stock, $2.0 million used to pay withholding obligations related to the net share settlement of restricted stock awards upon vesting and $20,000 for payments on our capital leases for office equipment. These amounts were partially offset by $1.7 million of proceeds from the exercise of stock options and $1.7 million of proceeds from the sale of our common stock in connection with our Amended and Restated 2000 Employee Stock Purchase Plan, as amended ("ESPP").

Our financing activities used $72.3 million of cash in the three months ended March 28, 2014, comprised of $75.4 million, including transaction fees, for the repurchase of common stock, of which $75.3 million was used to repurchase stock in connection with the Legatum Group public offering described above and $0.1 million was used to repurchase stock under our stock buyback program, $1.5 million used to pay withholding obligations related to the net share settlement of restricted stock awards upon vesting and $24,000 for payments on our capital leases for office equipment. These amounts were partially offset by $3.4 million of proceeds from the exercise of stock options and $1.2 million of proceeds from the sale of our common stock in connection with our ESPP.

Based on our current expectations, we believe our current cash, cash equivalents, marketable debt securities and long-term investments will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least twelve months, including any future stock repurchases under the aforementioned stock buyback program. It is difficult to predict future liquidity requirements with certainty. The rate at which we will consume cash will be dependent on the cash needs of future operations, including changes in working capital, which will, in turn, be directly affected by the successful implementation of our cost reduction and containment plan, the levels of demand for our products, the timing and rate of expansion of our business, the resources we devote to developing our products and any litigation settlements. We anticipate devoting substantial capital resources to continue our research and development efforts, to maintain our sales, support and marketing, to improve our controls environment, for other general corporate activities and to vigorously defend against existing and potential litigation. See Note 15 to our condensed consolidated financial statements for a description of our contingencies.

Recent Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"). ASU 2014-15 provides guidelines determining when and how to disclose going concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. ASU 2014-15 applies to all entities and is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. The adoption of ASU 2014-15 is not expected to have a material impact on our consolidated financial statements.

In June, 2014, the FASB issued ASU 2014-12, *Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force)* ("ASU 2014-12"). ASU 2014-12 which clarifies that entities should treat performance targets that can be met after the requisite service period of a share-based payment award as performance conditions that affect vesting. Therefore, an entity would not record compensation expense (measured as of the grant date without taking into account the effect of the performance target) related to an award for which transfer to the employee is contingent on the entity's satisfaction of a performance target until it becomes probable that the performance target will be met. ASU 2014-12 does not contain any new disclosure requirements. ASU 2014-12 was effective for us on January 1, 2015. The adoption of ASU 2014-12 did not have a material impact on our condensed consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09") its final standard on revenue from contracts with customers. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the revenue model to contracts within its scope, an entity identifies the contract(s) with a customer, identifies the performance obligations in the contract, determines the transaction price, allocates the transaction price to the performance obligations in the contract and recognizes revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 applies to all contracts with customers that are within the scope of other topics in the FASB Accounting Standards Codification ("ASC"). Certain of ASU 2014-09's provisions also apply to transfers of nonfinancial assets, including in-substance nonfinancial assets that are not an output of an entity's ordinary activities (i.e., property, plant and equipment; real estate; or intangible assets). Existing accounting guidance applicable to these transfers has been amended or superseded. In April 2015, the FASB tentatively decided to defer the original effective date of interim and annual reporting periods beginning after December 15, 2015 by one year. As a result, public entities would not be required to apply the new revenue standard until annual reporting periods beginning after December 15, 2017. We are currently assessing the potential impact of the adoption of ASU 2014-09 on our condensed consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* ("ASU 2014-08"), which amends the definition of discontinued operations in ASC 205-20 and requires entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued operations criteria. The new guidance eliminates the previous criteria that the operations and cash flows of the component that have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction. The new guidance also eliminates the previous criteria that the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction. Instead, ASU 2014-08 requires discontinued operations treatment for disposals of a component or group of components that represents a strategic shift that has or will have a major impact on an entity's operations or financial results. ASU 2014-08 requires entities to reclassify assets and liabilities of a discontinued operation for all comparative periods presented in the statement of financial position. In addition, ASU 2014-08 requires that an entity disclose in its statement of cash flows, in all periods presented, either: (1) operating and investing cash flows or (2) depreciation and amortization, capital expenditures and significant operating and investing non-cash items related to the discontinued cooperation. ASU 2014-08 was effective prospectively for all disposals (except disposals classified as held for sale before the adoption date) or components initially classified as held for sale in periods beginning on or after December 15, 2014. The adoption of ASU 2014-08 did not have a material impact on our condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to a variety of market risks, including changes in interest rates affecting the return on our investments and foreign currency fluctuations. We do not believe that a hypothetical 10% adverse movement in interest rates and foreign currency exchange rates would have a materially different impact from what was disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of March 27, 2015.

Changes in Internal Control over Financial Reporting. There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended March 27, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

On April 6, 2015, Ming Huang, a purported shareholder of the Company (the “Plaintiff”), filed a Class Action Complaint alleging violations of the federal securities laws (the “Complaint”) in the United States District Court for the District of New Jersey (Civil Action No. 3:15-02407), against Sonus and two of its officers, Raymond P. Dolan, the Company’s President and Chief Executive Officer, and Mark Greenquist, the Company’s Chief Financial Officer (the “Defendants”). The Plaintiff claims to represent purchasers of the Company’s common stock during the period from October 23, 2014 to March 24, 2015 and seeks unspecified damages. The principal allegation contained in the Complaint is the claim that the Defendants made misleading forward-looking statements concerning the Company’s fiscal first quarter 2015 financial performance. The Company believes that the Defendants have meritorious defenses to the allegations made in the Complaint and does not expect the results of this suit to have a material effect on its business or consolidated financial statements.

In addition, the Company is often a party to disputes and legal proceedings that it considers routine and incidental to its business. Management does not expect the results of any of these actions to have a material effect on the Company's business or consolidated financial statements.

Item 1A. Risk Factors

We have revised and updated our discussion of the risk factors affecting our business since those presented in our Annual Report on Form 10-K, Part I, Item 1A. for the fiscal year ended December 31, 2014. The following discussion includes five revised risk factors: “We believe the telecommunications industry is in the early stages of a major architectural shift to the virtualization of networks. If the architectural shift does not occur, if it does not occur at the pace we predict, or if the products and services we have developed are not attractive to our customers after such shift takes place, our revenues could decline"; “Restructuring activities could adversely affect our ability to execute our business strategy”; “If in the future we do not have a sufficient number of shares available to issue to our employees, the limited number of shares we could issue may impact our ability to attract, retain and motivate key personnel”; “Our recently effected reverse stock split could impair the value of your investment or adversely affect the market liquidity of our common stock”; “Our credit agreement with Bank of America, N.A. (“Bank of America”), as Administrative Agent, Swing Line Lender and L/C Issuer, and the other lenders from time to time party thereto, dated as of June 27, 2014 (the “Credit Agreement”), contains financial and operating restrictions that may limit our access to credit. If we fail to comply with covenants in the Credit Agreement, we may be required to repay any potential indebtedness thereunder, which may have an adverse effect on our liquidity. In addition, if we are unable to extend, renew or replace the Credit Agreement by the maturity date of June 27, 2015, on favorable terms, or at all, our business, operations and financial condition may be materially adversely affected”; “We may face risks related to litigation that could result in significant legal expenses and settlement or damage awards”; and "If our goodwill or intangible assets become impaired, we may be required to record a significant charge to earnings”, which reflect material developments subsequent to the discussion of risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014. Except for the five risk factors noted above, there have been no material changes in our assessment of our risk factors from those set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014. For convenience, all of our risk factors are included below.

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below before buying our common stock. If any of the following risks actually occurs, our business, financial condition, results of operations and cash flows could be materially adversely affected, the trading price of our common stock could decline materially and you could lose all or part of your investment.

Our quarterly revenue and operating results are unpredictable and may fluctuate significantly from quarter to quarter, which could adversely affect our business, consolidated financial statements and the trading price of our common stock.

Our revenues and operating results may vary significantly from quarter to quarter due to a number of factors, many of which are outside of our control and any of which may cause our stock price to fluctuate. The primary factors that may affect our revenues and operating results include, but are not limited to, the following:

- consolidation within the telecommunications industry, including acquisitions of or by our customers;
- general economic conditions in our markets, both domestic and international, as well as the level of discretionary IT spending;
- competitive conditions in our markets, including the effects of new entrants, consolidation, technological innovation and substantial price discounting;
- fluctuation in demand for our products and services, and the timing and size of customer orders;
- fluctuations in foreign exchange rates;
- cancellation or deferral of existing customer orders or the renegotiation of existing contractual commitments;
- mix of product configurations sold;
- length and variability of the sales cycle for our products;
- application of complex revenue recognition accounting rules to our customer arrangements;
- timing of revenue recognition;
- changes in our pricing policies, the pricing policies of our competitors and the prices of the components of our products;
- market acceptance of new products, product enhancements and services that we offer;
- the quality and level of our execution of our business strategy and operating plan, and the effectiveness of our sales and marketing programs;
- new product announcements, introductions and enhancements by us or our competitors, which could result in deferrals of customer orders;
- our ability to develop, introduce, ship and successfully deliver new products and product enhancements that meet customer requirements in a timely manner;
- our reliance on contract manufacturers for the production and shipment of our hardware products;
- our or our contract manufacturers' ability to obtain sufficient supplies of sole or limited source components or materials;
- our ability to attain and maintain production volumes and quality levels for our products;
- variability and unpredictability in the rate of growth in the markets in which we compete;
- costs related to acquisitions; and
- corporate restructurings.

Equipment purchases by communications service providers and enterprises continue to be unpredictable given the current economic conditions. Additionally, as with other telecommunications product suppliers, we typically recognize a portion of our revenue in a given quarter from sales booked and shipped in the last weeks of that quarter. As a result, delays in customer orders may result in delays in shipments and recognition of revenue beyond the end of a given quarter. Additionally, it can be difficult for us to predict the timing of receipt of major customer orders, and we are unable to control timing decisions made by our customers. As a result, our quarterly operating results are difficult to predict even in the near term and a delay in an anticipated sale past the end of a particular quarter may negatively impact our results of operations for that quarter, or in some cases, that year. Therefore, we believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance. If our revenue or operating results fall below the expectations of investors or securities analysts or below any guidance we may provide to the market, the price of our common stock could decline substantially. Such a stock price decline could also occur when we have met our publicly stated revenue and/or earnings guidance.

A significant portion of our operating expenses is fixed in the short term. If revenues for a particular quarter are below expectations, we may not be able to reduce costs and expenses proportionally for that quarter. Any such revenue shortfall would, therefore, have a significant effect on our operating results for that quarter.

We have incurred net losses and may incur additional net losses.

We incurred net losses in the first quarter of 2015, as well as in fiscal years 2014, 2013 and 2012. We may incur additional net losses in future quarters and years. Our revenues may not grow and we may never generate sufficient revenues to sustain profitability.

We will not be successful if we do not grow our customer base, especially since our revenue has historically been generated from a limited number of customers and the per-order revenue from orders placed by the majority of our new customers is generally lower than the per-order revenue generated from our historical sales. Additionally, if we are unable to generate recurring business from our existing customers, our consolidated financial statements could be materially and adversely affected.

Prior to our acquisition of Network Equipment Technologies, Inc. ("NET") in August 2012, we had shipped our products to a limited number of customers. Since the acquisition of NET, as well as our acquisition of Performance Technologies, Incorporated ("PT") in February 2014, the number of customers to whom we have shipped our products has increased significantly. However, due to the nature of certain of our new product offerings, the per-order revenue from orders placed by the majority of our new customers is generally lower than the per-order revenue generated from our historical sales.

Our future success will depend on our ability to attract additional customers beyond our current customer base. In 2014, 2013 and 2012, one customer, AT&T, contributed more than 10% of our revenue, representing approximately 19% of our revenue in 2014, 15% of our revenue in 2013 and 20% of our revenue in 2012. Factors that may affect our ability to grow our customer base include the following:

- economic conditions that discourage potential new customers from making the capital investments required to adopt new technologies;
- deterioration in the general financial condition of service providers and enterprises, or their ability to raise capital or access lending sources;
- new product introductions by our competitors; and
- the continued development of our channel program.

If we are unable to expand our customer base, we will be forced to rely on generating recurring revenue from existing customers, which may not be successful. We expect to derive an increasing percentage of our revenue from engagements with our value-added resellers ("VAR") and global system integration partners; however, in the foreseeable future, the majority of our revenue will continue to depend on sales of our products to a limited number of existing customers or sales to customers with lower per-order revenue than those generated from our historical sales. Factors that may affect our ability to generate recurring revenues from our existing customers include the following:

- customer willingness to implement our products;
- the timing of industry transitions to new network technologies;
- acquisitions of or by our customers;
- delays or difficulties that we may incur in completing the development and introduction of our planned products or product enhancements;
- failure of our products to perform as expected; and
- difficulties we may incur in meeting customers' delivery requirements.

The loss of any significant customer, or any substantial reduction in purchase orders or deferral of purchasing decisions from these customers could materially and adversely affect our consolidated financial statements.

We continue to enhance our sales strategy, which we expect will include more significant engagements with value-added resellers and global system integration partners to resell our products and services. Disruptions to, or our failure to effectively develop and manage, these partners and the processes and procedures that support them could adversely affect our ability to generate revenues from the sale of our products and services. If we do not have adequate personnel, experience and resources to manage the relationships with these partners and to fulfill our responsibilities under such arrangements, such shortcomings could lead to the decrease of the sales of our products and services and our operating results could suffer.

We continue to enhance our sales strategy, which we expect will include more significant engagements with VAR channel partners and system integrators to resell our products and services. Our future success is dependent upon establishing and maintaining successful relationships with a variety of distributors and value-added distribution, VAR and systems integration partners. We may also need to pursue strategic partnerships with vendors who have broader technology or product offerings in order to compete with end-to-end solution providers. In addition, many of the enterprise markets we are pursuing require a broad network of resale partners in order to achieve effective distribution.

Many of our distribution and channel partners sell competitive products and services and the loss of, or reduction in sales by, these partners could materially reduce our revenues. Our sales through channel partners typically involve the use of our products as components of a larger solution being implemented by the systems integrator. In these instances, the purchase and sale of our products are dependent on the channel partner, who typically controls the timing, prioritization and implementation of the project. Project delays, changes in priority or solution re-design decisions by the systems integrator can adversely affect our product sales. If we fail to maintain relationships with our distribution, VAR and systems integration partners; fail to develop new relationships with other partners in new markets; fail to manage, train or provide incentives to our existing partners effectively; or if these partners are not successful in their sales efforts, sales of our products and services may decrease and our operating results could suffer. Moreover, if we do not have adequate personnel, experience and resource to manage the relationships with our partners and to fulfill our responsibilities under such arrangements, any shortcomings could have a material adverse impact on our business and consolidated financial statements.

In addition, we recognize some of our revenue based on a sell-through model using information provided by our partners. If those partners provide us with inaccurate or untimely information, the amount or timing of our revenues could be adversely affected. We may also experience financial failure of our partners, which could result in our inability to collect accounts receivable in full.

As the telecommunications industry and the requirements of our current and potential customers evolve, we are redirecting certain of our resources to more readily respond to the changing environment through the research and development of innovative new products and the improvement of existing products. If our strategic plan is not aligned with the direction our customers take as they invest in the evolution of their networks, customers may not buy our products or use our services.

Success in our industry requires large investments in technology and creates exposure to rapid technological and market changes. We spend a significant amount of time, money and resources both developing new technology, products and solutions and acquiring new businesses or business assets, as applicable, such as NET in August 2012 and PT in February 2014. In January 2015, we acquired from Treq Labs, Inc. ("Treq") certain assets related to Treq's business of designing, developing, marketing, selling, servicing and maintaining software-defined networking ("SDN") technology, SDN controller software and SDN management software (the "SDN Business"). Our strategic plan includes a significant shift in our investments from mature technologies that previously generated significant revenue for us toward certain next-generation technologies as well as working with more channel partners to sell our products. In order for us to be successful, our technologies, products and solutions must be accepted by relevant standardization bodies and by the industry as a whole. Our choices of specific technologies to pursue, and those to de-emphasize, may prove to be inconsistent with our customers' investment spending. Our success also depends upon our ability to integrate new and acquired products and services, as well as our ability to enhance our existing products and services. Moreover, if we invest in the development of technologies, products and solutions that do not function as expected, are not adopted by the industry, are not ready in time, are not accepted by our customers as quickly as anticipated or are not successful in the marketplace, our sales and earnings may suffer and, as a result, our stock price could decline. As technology advances, we may not be able to respond quickly or effectively to developments in the market for our products, or new industry standards may emerge and could render our existing or future products obsolete. If our products become technologically obsolete or if we are unable to develop successor products that are accepted by our customers, we may be unable to sell our products in the marketplace and face declines in sales. We may also experience difficulties with software development, hardware design, manufacturing or marketing that could delay or prevent our development, introduction or marketing of new products and enhancements.

We believe the telecommunications industry is in the early stages of a major architectural shift to the virtualization of networks. If the architectural shift does not occur, if it does not occur at the pace we predict, or if the products and services we have developed are not attractive to our customers after such shift takes place, our revenues could decline.

We believe the telecommunications industry is in the early stages of transitioning to the virtualization of networks, and we are developing products and services that we believe will be attractive to our customers and potential customers who make that shift. While we believe that the industry shift to a software-centric cloud-based architecture is all but certain to happen, fundamental changes like this often take time to accelerate. In addition, our customers may adapt to such changes at varying rates. As our customers take time to determine their future network architectures, we may encounter delayed timing of orders, deferred purchasing decisions and reduced expenditures. These longer decision cycles and reduced expenditures may negatively impact our revenues, or make it difficult for us to accurately predict our revenues, either of which could materially adversely affect our consolidated financial statements and cause our stock price to decline.

In 2012, the macro-environment for our media gateway trunking business faced significant declining revenues that happened faster than we were anticipating. In 2014 and 2013, we continued to experience significant declines in customer spending in our media gateway trunking business. Even though we continue to transform our company from a media gateway trunking business to an SBC and DSC business, a portion of our current revenue remains dependent upon the commercial success of our voice infrastructure products, which we believe will remain true for the foreseeable future. If the market for these products continues to significantly decline and if our SBC and DSC sales do not accelerate as quickly as we forecast, our operating results could suffer.

While we continue to transform our company from a media gateway trunking business to an Session Border Controller ("SBC") and Diameter Signaling Controller ("DSC") business, a portion of our current revenue still depends upon the commercial success of our TDM-to-IP and our all-IP voice infrastructure products and solutions, and we believe this will remain true for the foreseeable future. If the market for these products continues to significantly decline and if our SBC and DSC sales do not accelerate as quickly as we forecast, our operating results could suffer.

Restructuring activities could adversely affect our ability to execute our business strategy.

We recorded restructuring expense of $18.7 million in the aggregate in 2014, 2013 and 2012, comprised of $11.9 million for severance and related costs, $6.3 million for the consolidation of certain facilities and $0.5 million for the write-off of assets associated with the headcount reduction and facilities consolidations. We initiated a new restructuring plan in April 2015 pursuant to which we expect to reduce our workforce by approximately 150 positions, or approximately 12.5%. We estimate that we will record approximately $5 million of restructuring expense in the second quarter of 2015 for severance and related costs in connection with this new restructuring plan.

These restructurings and any future restructurings, should it become necessary for us to continue to restructure our business due to worldwide market conditions or other factors that reduce the demand for our products and services, could adversely affect our ability to execute our business strategy in a number of ways, including through:

- loss of key employees;
- diversion of management's attention from normal daily operations of the business;
- diminished ability to respond to customer requirements related to both products and services;
- decrease in cash and profits related to severance payments and facility termination costs;
- disruption of our engineering and manufacturing processes, which could adversely affect our ability to introduce new products and to deliver products both on a timely basis and in accordance with the highest quality standards; and/or
- reduced ability to execute effectively internal administrative processes, including the implementation of key information technology programs.

If we fail to realize the anticipated benefits from our acquisitions of PT and the SDN Business on a timely basis, or at all, our business and financial condition may be adversely affected.

We may fail to realize the anticipated benefits from our acquisition of PT and/or the SDN Business acquisition on a timely basis, or at all, for a variety of reasons, as applicable, including the following:

- problems or delays in assimilating or transitioning to Sonus the acquired assets, operations, systems, processes, controls, technologies, products or personnel;
- loss of acquired customer accounts;
- unanticipated costs associated with the acquisition;
- failure to identify in the due diligence process or assess the magnitude of certain liabilities we assumed in the acquisition, which could result in unexpected litigation or regulatory exposure, unfavorable accounting treatment, unexpected increases in taxes due, significant issues with product quality or development or other adverse effects on our business or consolidated financial statements;
- multiple or overlapping product lines as a result of the PT acquisition that are offered, priced and supported differently, which could cause customer confusion and delays;
- higher than anticipated costs in continuing support and development of acquired products;
- diversion of management’s attention from our core business and the challenges of managing larger and more widespread operations from the acquisition;
- adverse effects on existing business relationships of Sonus or PT with respective suppliers, licensors, contract manufacturers, customers, distributors, resellers and industry experts;
- significant impairment, exit and/or restructuring charges if the products or technologies acquired in the acquisition do not meet our sales expectations or are unsuccessful;

- insufficient revenue to offset increased expenses associated with the acquisition;
- risks associated with entering markets in which we have no or limited prior experience;
- potential loss of PT’s or our own employees; and/or
- failure to properly integrate internal controls and financial systems of the combined companies.

If we are not able to successfully manage these issues, the anticipated benefits and efficiencies of the PT and/or the SDN Business acquisition may not be realized fully or at all, or may take longer to realize than expected, and our ability to compete, our revenue and gross margins and our results of operations may be adversely affected.

Any future investments or acquisitions we make could be difficult to integrate, disrupt our business, dilute shareholder value and seriously harm our financial condition.

We are not currently a party to any material pending acquisition agreements. However, we may acquire additional businesses, products or technologies in the future. Acquisitions are inherently risky and no assurance can be given that our future acquisitions will be successful or will not materially and adversely affect our business, operating results or financial condition. We continue to review opportunities to acquire other businesses or technologies that would add to our existing product line, complement and enhance our current products, expand the breadth of our markets, enhance our technical capabilities or otherwise offer growth opportunities. If we make further acquisitions, we could, among other things:

- issue stock that would dilute existing stockholders' percentage ownership;
- incur debt or assume liabilities;
- reduce significantly our cash and investments;
- incur significant impairment charges related to the write-off of goodwill and intangible assets;
- incur significant amortization expenses related to intangible assets; and/or
- incur large and immediate write-offs for in-process research and development and stock-based compensation.

Mergers and acquisitions are inherently risky and subject to many factors outside of our control, and we cannot be certain that we would be successful in overcoming problems in connection with our past or future acquisitions. Our inability to do so could significantly harm our business, revenues, and results of operations.

If in the future we do not have a sufficient number of shares available to issue to our employees, the limited number of shares we could issue may impact our ability to attract, retain and motivate key personnel.

We historically have used stock options and restricted stock as a significant component of our employee compensation program in order to align our employees' interests with the interests of our stockholders, encourage employee retention and provide competitive compensation packages. In 2007, our stockholders approved our 2007 Stock Incentive Plan (the "2007 Plan") which includes a limited amount of shares to be granted under such plan. In 2010, our stockholders approved amendments to the 2007 Plan to, among other things, increase the number of shares of our common stock that may be granted under the 2007 Plan from 2,980,540 to 6,980,540. In June 2013, our stockholders approved an amendment to the 2007 Plan to increase the number of shares of our common stock that may be granted under the 2007 Plan by 4,200,000, from 6,980,540 to 11,180,540. At our December 2014 special meeting of stockholders, our stockholders approved certain amendments to the 2007 Plan, including an amendment to increase the aggregate number of shares of our common stock authorized for issuance under the 2007 Plan (i) by 2,000,000 new shares, from 11,180,540 shares to 13,180,540 shares and (ii) by the number of shares of our common stock that are reserved for future issuance under the 2008 Stock Incentive Plan (the "2008 Plan") and the 2012 Amended Performance Technologies, Incorporated Omnibus Incentive Plan (the "2012 Plan," together with the 2008 Plan, the "Acquired Plans") immediately prior to the time the proposal was approved by our stockholders and any shares of our common stock subject to awards that were outstanding under the Acquired Plans immediately prior to the time the proposal was approved by our stockholders that expire, are terminated, canceled, surrendered or forfeited, or are repurchased by us at their original issuance price pursuant to a contractual repurchase right under the Acquired Plans (subject, however, in the case of incentive stock options to any limitations under the Internal Revenue Code of 1986, as amended).

At our 2015 annual meeting of stockholders, we are asking our stockholders to approve amendments to the 2007 Plan that will, among other matters, increase the aggregate number of shares of our common stock authorized for issuance under the 2007 Plan by 1,400,000 new shares, from 14,276,713 shares to 15,676,713 shares, which amount includes the 1,096,173 shares of common stock (i) previously reserved for issuance under the Acquired Plans that remained available for grant under the Acquired Plans as of December 2, 2014 and (ii) subject to awards granted under the Acquired Plans, which awards expire, terminate or are otherwise surrendered, canceled, forfeited or repurchased by the Company at their original issuance price pursuant to a contractual repurchase right (subject, however, in the case of incentive stock options to any limitations of the Code).

Since it is not certain that our stockholders will approve this increase in the number of shares that we are authorized to issue under the 2007 Plan, we may not have sufficient shares for our needs in the near future. If our stockholders do not approve this or any other future amendments that we determine are needed to the 2007 Plan or adopt a new stock incentive plan, the limited number of shares available for use as equity incentives to employees may make it more difficult for us to attract, retain and motivate key personnel.

Worldwide efforts to contain capital spending, general uncertainty as to continued economic growth during the current post-recessionary global economy, the possibility of another recession and a continued weakened global economy could have a material adverse effect on us.

One factor that significantly affects our operating results is the impact of economic conditions on the willingness of our current and potential customers to make capital investments. Given the general uncertainty as to continued economic growth during the current post-recessionary global economy, we believe that customers continue to be cautious about sustained economic growth and have tried to maintain or improve profitability through cost control and constrained capital spending, which places additional pressure on IT departments to demonstrate acceptable return on investment. Some of our current or prospective customers may cancel or delay spending on the development or roll-out of capital and technology projects with us due to the continuing economic uncertainty and, consequently, our results of operations may be adversely affected. In addition, the current uncertain worldwide economic and political environments make it increasingly difficult for us, our customers and our suppliers to accurately forecast future product demand, which could result in an inability to satisfy demand for our products and a loss of market share. Our revenues are likely to decline in such circumstances and our profit margins could erode, or we could incur significant losses.

Moreover, economic conditions worldwide may continue to contribute to slowdowns in the communications and networking industries, as well as to specific segments and markets in which we operate, resulting in:

- reduced demand for our products as a result of our customers choosing to refrain from building capital intensive networks;
- increased price competition for our products, not only from our competitors, but also as a consequence of customers disposing of unutilized products;
- risk of excess and obsolete inventories;
- excess facilities and manufacturing capacity; and/or
- higher overhead costs as a percentage of revenue and higher interest expense.

Continuing turmoil in the geopolitical environment in many parts of the world, including terrorist activities and military actions, as well as political and economic issues in many regions, continue to put pressure on global economic conditions. Our operating results and our ability to expand into other international markets may also be affected by changing economic conditions particularly germane to that sector or to particular customer markets within that sector.

If we fail to compete successfully against telecommunications equipment and networking companies, our ability to increase our revenues and achieve profitability will be impaired.

Competition in the telecommunications market is intense. This market has historically been dominated by large incumbent telecommunications equipment companies, such as Ericsson LM Telephone Company and Huawei Technologies Co. Ltd., both of which are our direct competitors. We also face competition from other telecommunications and networking companies, including Alcatel Lucent, AudioCodes Ltd., Cisco Systems, Inc., GENBAND Inc., Mavenir, Metaswitch, Nokia Siemens Network (NSN) and Oracle Corporation, all of which design competing products. These or other competitors may also merge, intensifying competition. Additional competitors with significant financial resources may enter our markets and further intensify competition.

Many of our current and potential competitors have significantly greater selling and marketing, technical, manufacturing, financial and other resources than we have. Further, some of our competitors sell significant amounts of other products to our current and prospective customers and have the ability to offer lower prices to win business. Our competitors' broad product portfolios, coupled with already existing relationships, may cause our customers to buy our competitors' products or harm our ability to attract new customers.

To compete effectively, we must deliver innovative products that:

- provide extremely high reliability and quality;

- deploy and scale easily and efficiently;
- interoperate with existing network infrastructures and multivendor solutions;
- provide effective network management;
- are accompanied by comprehensive customer support and professional services;
- provide a cost-effective and space-efficient solution for service providers; and
- meet price competition from low cost equipment providers.

If we are unable to compete successfully against our current and future competitors, we could experience price reductions, order cancellations, loss of customers and revenues, and our operating results could be adversely affected.

If we do not anticipate and meet specific customer requirements or if our products do not interoperate with our customers' existing networks, we may not retain current customers or attract new customers.

To achieve market acceptance for our products, we must effectively anticipate, and adapt in a timely manner to, customer requirements and offer products and services that meet changing customer demands. Prospective customers may require product features and capabilities that our current products do not have. The introduction of new or enhanced products also requires that we carefully manage the transition from older products in order to minimize disruption in customer ordering patterns and ensure that adequate supplies of new products can be delivered to meet anticipated customer demand. If we fail to develop products and offer services that satisfy customer requirements or if we fail to effectively manage the transition from older products, our ability to create or increase demand for our products would be seriously harmed and we may lose current and prospective customers.

Many of our customers will require that our products be designed to interface with their existing networks, each of which may have different specifications. Issues caused by an unanticipated lack of interoperability may result in significant warranty, support and repair costs, divert the attention of our engineering personnel from our hardware and software development efforts and cause significant customer relations problems. If our products do not interoperate with those of our customers' networks, installations could be delayed or orders for our products could be canceled, which would seriously harm our gross margins and result in loss of revenues or customers. Additionally, our customers may decide to devote a significant portion of their budgets to evolving technology as they consider national or worldwide build-outs. Therefore, if the demand for our products is not strong and if our target customers do not adopt, purchase and successfully deploy our current or planned products, our revenues will not grow.

Our large customers have substantial negotiating leverage, and they may require that we agree to terms and conditions that may have an adverse effect on our business.

Large communications service providers have substantial purchasing power and leverage in negotiating contractual arrangements with us. These customers may, among other things, require us to develop additional features, require penalties for failure to deliver such features, require us to partner with a certain reseller before purchasing our products and/or seek discounted product and/or service pricing. As we sell more products to this class of customer, we may be required to agree to terms and conditions that are less beneficial to us, which may affect the timing of revenue recognition, amount of deferred revenues or product and service margins and may adversely affect our financial position and cash flows in certain reporting periods.

Our stock price has been and may continue to be volatile.

The market for technology stocks has been, and will likely continue to be, volatile. The following factors could cause the market price of our common stock to fluctuate significantly:

- addition or loss of any major customer;
- continued significant declines in customer spending in the media gateway trunking business;
- consolidation and competition in the telecommunications industry;
- changes in the financial condition or anticipated capital expenditure purchases of any existing or potential major customer;
- economic conditions for the telecommunications, networking and related industries;
- quarterly variations in our bookings, revenues and operating results;
- changes in financial estimates by securities analysts;
- speculation in the press or investment community;
- announcements by us or our competitors of significant contracts, new products or acquisitions, distribution partnerships, joint ventures or capital commitments;

- activism by any single large stockholder or combination of stockholders;
- sales of common stock or other securities by us or by our stockholders in the future;
- securities and other litigation;
- repurchases under our stock buyback program;
- announcement of a stock split, reverse stock split, stock dividend or similar event; and/or
- emergence or adoption of new technologies or industry standards.

Our recently effected reverse stock split could impair the value of your investment or adversely affect the market liquidity of our common stock.

On December 2, 2014, our stockholders approved an amendment to our Fourth Amended and Restated Certificate of Incorporation, as amended, and authorized our Board of Directors to effect a reverse stock split of our issued and outstanding common stock and to decrease the number of authorized shares of common stock on a basis proportional to the reverse stock split ratio. On January 29, 2015, we effected a one-for-five reverse stock split of our common stock that was made effective on the NASDAQ Global Select Market as of the commencement of trading on January 30, 2015; however, there are risks associated with this reverse stock split, which may be viewed negatively by the market. For instance, if the market price of our common stock declines, the percentage decline may be greater than would have occurred prior to the reverse stock split. In addition, we cannot predict whether the per-share market price of our common stock following the reverse stock split will attract institutional investors or investment funds or that such share price will satisfy the investing guidelines or institutional investors or investment funds who do not trade in lower priced stocks.

Furthermore, the liquidity of our common stock could be adversely affected by the reduced number of shares resulting from the reverse stock split. Brokerage firms often do not permit stocks trading below $5.00 per share to be sold short, but often permit short-selling of shares which are traded at higher prices. As a result, to the extent our per-share trading price is consistently above $5.00, investors may short our stock. This may increase the volatility of our stock price.

Our credit agreement with Bank of America, N.A. ("Bank of America"), as Administrative Agent, Swing Line Lender and L/C Issuer, and the other lenders from time to time party thereto, dated as of June 27, 2014 (the "Credit Agreement"), contains financial and operating restrictions that may limit our access to credit. If we fail to comply with covenants in the Credit Agreement, we may be required to repay any potential indebtedness thereunder, which may have an adverse effect on our liquidity. In addition, if we are unable to extend, renew or replace the Credit Agreement by the maturity date of June 27, 2015, on favorable terms, or at all, our business, operations and financial condition may be materially adversely affected.

The Credit Agreement provides us with a revolving credit facility of up to $40 million. Provisions in the Credit Agreement impose limitations on our ability to, among other things:

- incur additional indebtedness;
- create liens;
- enter into transactions with affiliates;
- dispose of assets;
- make certain investments; and
- merge or consolidate.

In addition, we are required to meet certain financial covenants customary for financings of this type. Our failure to comply with these covenants in the future may result in the declaration of an event of default, which could cause us to be unable to borrow under the Credit Agreement or result in the acceleration of the maturity of indebtedness outstanding under the Credit Agreement at such time. If the maturity of our indebtedness is accelerated, we may not have sufficient funds available for repayment or we may not have the ability to borrow or obtain sufficient funds to replace the accelerated indebtedness on terms acceptable to us, or at all. We would also be subject to a 0.15% commitment fee on any unused commitments available for borrowing.

Furthermore, while we had no amounts outstanding under the Credit Agreement as of March 27, 2015, we may wish to draw on this facility in the future. We may be prevented from borrowing, however, if we are unable to extend, renew or replace the Credit Agreement by the maturity date of June 27, 2015, on favorable terms, or at all, which could have an adverse effect on our liquidity and cause our business, operations and financial condition to suffer.

Our business could be jeopardized if we are unable to protect our intellectual property; additionally, in some jurisdictions, our rights may not be as strong as we currently enjoy in the United States.

We rely on a combination of security countermeasures within our deployed products, as well as patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our products or technology. Monitoring unauthorized use of our products is difficult and we cannot be certain that the steps we have taken will prevent unauthorized use of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. The legal systems of many foreign countries do not protect or honor intellectual property rights to the same extent as the legal system of the United States. It may be very difficult, time-consuming and costly for us to attempt to enforce our intellectual property rights in these jurisdictions. If competitors are able to use our technology, our ability to compete effectively could be harmed.

Claims that our current or future products infringe or misappropriate the proprietary rights of others could adversely affect our ability to sell those products and cause us to incur additional costs.

Substantial litigation over intellectual property rights exists in the telecommunications industry. We expect that we could be increasingly subject to third-party infringement claims as our revenue increases, the number of competitors grows and the functionality of products and technology in different industry segments overlaps. Third parties may currently have, or may eventually be issued, patents on which our current or future products or technologies may infringe. For example, there has been an increase in the industry of third-party infringement claims brought by Non-Practicing Entities, also known as patent trolls.

In addition, we and our customers have received inquiries from intellectual property owners and may become subject to claims that we or our customers infringe the intellectual property rights of third parties. Any parties asserting that our products infringe upon their proprietary rights could force us to license their patents for substantial royalty payments or to defend ourselves and possibly our customers or contract manufacturers in litigation. These claims and any resulting licensing arrangement or lawsuit, if successful, could subject us to significant royalty payments or liability for damages and invalidation of our proprietary rights. Any potential intellectual property litigation also could force us to do one or more of the following:

- stop selling, incorporating or using our products that use the challenged intellectual property;
- obtain from the owner of the infringed intellectual property right a license to sell or use the relevant technology, which license may not be available at acceptable prices, on acceptable terms, or at all; or
- redesign those products that use any allegedly infringing technology.

Patent litigation, regardless of its outcome, will likely result in the expenditure of significant financial resources and the diversion of management’s time and resources. In addition, patent litigation may cause negative publicity, adversely impact prospective customers, cause product shipment delays, prohibit us from manufacturing, marketing or selling our current or future products, require us to develop non-infringing technology, make substantial payments to third parties or enter into royalty or license agreements, which may not be available on acceptable terms or at all. If a successful claim of infringement were made against us in a particular patent litigation and we could not develop non-infringing technology or license the infringed or similar technology on a timely and cost-effective basis, our revenue may decrease substantially and we could be exposed to significant liability. A court could enter orders that temporarily, preliminarily or permanently enjoin us or our customers from making, using, selling, offering to sell or importing our current or future products, or could enter an order mandating that we undertake certain remedial activities. Although historically our costs to defend lawsuits relating to indemnification provisions in our product agreements have been insignificant, the costs may be significant in future periods.

We may face risks related to litigation that could result in significant legal expenses and settlement or damage awards.

From time to time, we are subject to claims and litigation regarding intellectual property rights or other claims, which could seriously harm our business and require us to incur significant costs. On April 6, 2015, Ming Huang, a purported shareholder of the Company (the "Plaintiff"), filed a Class Action Complaint alleging violations of the federal securities laws (the "Complaint") in the United States District Court for the District of New Jersey (Civil Action No. 3:15-02407), against the Company and two of its officers, Raymond P. Dolan, the Company's President and Chief Executive Officer, and Mark Greenquist, the Company's Chief Financial Officer (the "Defendants"). The Plaintiff claims to represent purchases of the Company's common stock during the period from October 23, 2014 and March 25, 2015 and seeks unspecified damages. The principal allegation contained in the Complaint is the claim that the Defendants made misleading forward-looking statements concerning the Company's first quarter 2015 financial performance. In the past, we have also been named as a defendant in other securities class action and derivative lawsuits. We are generally obliged, to the extent permitted by law, to indemnify our current and former directors and officers who are named as defendants in these lawsuits. Defending against litigation may require significant attention and resources of management. Regardless of the outcome, such litigation could result in significant legal expenses.

We may also be subject to employment claims in connection with employee terminations. In addition, companies in our industry whose employees accept positions with us may claim that we have engaged in unfair hiring practices. These claims may result in material litigation. We could incur substantial costs defending ourselves or our employees against those claims, regardless of their merits. In addition, defending ourselves from those types of claims could divert our management's attention from our operations. The cost of employment claims may also increase as a result of our increasing international expansion.

If we are a party to material litigation and if the defenses we claim are ultimately unsuccessful, or if we are unable to achieve a favorable settlement, we could be liable for large damage awards that could have a material adverse effect on our business and consolidated financial statements.

Actions that may be taken by significant stockholders may divert the time and attention of our Board of Directors and management from our business operations.

Campaigns by significant investors to effect changes at publicly-traded companies continue to be prevalent. There can be no assurance that one or more current or future stockholders will not pursue actions to effect changes in our management and strategic direction, including through the solicitation of proxies from our stockholders. If a proxy contest were to be pursued by any stockholder, it could result in substantial expense to us, consume significant attention of our management and Board of Directors, and disrupt our business.

Delaware law and our charter documents contain provisions that could discourage or prevent a potential takeover, even if such a transaction would be beneficial to our stockholders.

Some provisions in our amended and restated certificate of incorporation, our amended and restated by-laws, as well as provisions of Delaware law, may discourage, delay or prevent a merger or acquisition that may be deemed undesirable by our Board of Directors but that a stockholder may consider favorable. These include provisions:

- authorizing the Board of Directors to issue shares of preferred stock;
- limiting the persons who may call special meetings of stockholders;
- prohibiting stockholder actions by written consent;
- permitting the Board of Directors to increase the size of the Board and to fill vacancies;
- providing indemnification to our directors and officers;
- controlling the procedures for conduct and scheduling of Board and stockholder meetings;
- requiring a super-majority vote of our stockholders to amend our amended and restated by-laws and certain provisions of our amended and restated certificate of incorporation; and
- establishing advance notice requirements for nominations for election to the Board of Directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

These provisions, alone or together, could delay hostile takeovers or changes in control of us or our management.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation law, which prevents some stockholders holding more than 15% of our outstanding common stock from engaging in certain business combinations without approval of the holders of substantially all of our outstanding common stock.

Any provision of our amended and restated certificate of incorporation or amended and restated by-laws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock. Although we believe that our amended and restated certificate of incorporation and our amended and restated bylaws and provisions of Delaware law provide an opportunity for the Board of Directors to assure that our stockholders realize full value for their investment, they could have the effect of delaying or preventing a change of control that some stockholders may consider beneficial.

We are exposed to fluctuations in currency exchange rates that could negatively impact our financial results and cash flows.

Because a portion of our business is conducted outside the United States, we face exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve, and they could have a material adverse impact on our financial results and cash flows. An increase in the value of the dollar could increase the real cost to our customers of our products in those markets outside the United States where we often sell in dollars, and a weakened dollar could increase the cost of local operating expenses and procurement of raw materials from sources outside the United States.

We may face risks associated with our international expansion that could impair our ability to grow our international revenues. If we fail to manage the operational and financial risks associated with our international operations, it could have a material adverse effect on our business and consolidated financial statements.

We have expanded, and expect to continue to expand, our operations in international and emerging markets. International operations are a significant part of our business, and such operations will continue to require significant management attention and financial resources to successfully develop direct and indirect international sales and support channels. In addition, our international operations are subject to other inherent risks, including:

- reliance on channel partners;
- greater difficulty collecting accounts receivable and longer collection cycles;
- difficulties and costs of staffing and managing international operations;
- impacts of differing technical standards outside the United States;
- compliance with international trade, customs and export control regulations;
- reduced protection for intellectual property rights in some countries;
- foreign government regulations limiting or prohibiting potential sales or increasing the cost of doing business in such markets, including reversals or delays in the opening of foreign markets to new competitors or the introduction of new technologies;
- challenging pricing environments in highly competitive new markets;
- foreign currency exchange controls, restrictions on repatriation of cash and changes in currency exchange rates;
- potentially adverse tax consequences; and
- political, social and economic instability, including as a result of the current fragility of global financial markets, health pandemics or epidemics and/or acts of war or terrorism.

Our international revenue, both as a percentage of total revenue and absolute dollars, may vary from one period to the next, and accordingly, current data may not be indicative of future periods. If we are unable to support our business operations in international and emerging markets, or their further expansion, while balancing the higher operational and financial risks associated with these markets, our business and consolidated financial statements could be harmed.

In addition, we may not be able to develop international market demand for our products, which could impair our ability to grow our revenues. In many international markets, long-standing relationships between potential customers and their local suppliers and protective regulations, including local content requirements and approvals, create barriers to entry. We have limited experience marketing, distributing and supporting our products in certain international locations and, to do so, we expect that we will need to develop versions of our products that comply with local standards. Moreover, difficulties in foreign financial markets and economies and of foreign financial institutions, particularly in emerging markets, could adversely affect demand from customers in the affected countries.

We depend upon contract manufacturers and any disruption in these relationships may cause us to fail to meet the demands of our customers and damage our customer relationships. Additionally, in the event we elect to consolidate and/or change any of our manufacturers, qualifying a new contract manufacturer to commence commercial scale production or consolidating to a reduced number of contract manufacturers are expensive and time-consuming activities and could affect our business.

While we currently work with three contract manufacturers, we primarily rely upon one large global manufacturer to assemble our products according to our specifications and to fulfill orders on a timely basis. Reliance on a third-party manufacturer involves a number of risks, including a lack of control over the manufacturing process, inventory management and the potential absence or unavailability of adequate capacity. We do not have the internal manufacturing capabilities to meet our customers' demands. Any difficulties or failures to perform by our contract manufacturers could cause delays in customer product shipments or otherwise negatively affect our results of operations.

In connection with the acquisition of PT in 2014, we increased the number of contract manufacturers we worked with from three to four contract manufacturers. However, by December 31, 2014, we had reduced the number of contract manufacturers back down to three. Additionally, we switched from one single-source manufacturer to another in 2009 as well as in 2011. Any future changes to or consolidations of our current contract manufacturers could lead to material shortages or delays in the supply of our products. In the event we elect to continue to consolidate and/or change any of our manufacturers, qualifying a new contract manufacturer to commence commercial scale production or consolidating to a reduced number of contract manufacturers are expensive and time-consuming activities and could result in a significant interruption in the supply of our products. If a change in contract manufacturers results in delays in our fulfillment of customer orders or if a contract manufacturer fails to make timely delivery of orders, we may lose revenues and suffer damage to our customer relationships.

We and our contract manufacturers rely on single or limited sources for supply of some components of our products and if we fail to adequately predict our manufacturing requirements or if our supply of any of these components is disrupted, we will be unable to ship our products.

We and our contract manufacturers currently purchase several key components of our products, including commercial digital signal processors, from single or limited sources. Single-source and limited source manufacturing arrangements are of a nature that ordinarily accompanies the type of business we conduct. Nevertheless, depending upon the component, there may or may not be alternative sources of substitutes. We purchase these components on a purchase order basis. If we overestimate our component and finished goods requirements, we could have excess inventory, which would increase our costs. If we underestimate our requirements, we may not have an adequate supply, which could interrupt manufacturing of our products and result in delays in shipments and revenues. Additionally, if any of our contract manufacturers underestimates our requirements, they may not have an adequate supply, which could interrupt manufacturing of our products and result in delays in shipments. If any of our sole or limited source suppliers experiences capacity constraints, work stoppages or other reductions or disruptions in output, they may not be able to meet, or may choose not to meet, our delivery schedules. Moreover, we have agreed to compensate our contract manufacturers in the event of termination or cancellation of orders, discontinuance of product or excess material.

We currently do not have long-term supply contracts with our component suppliers and they are not required to supply us with products for any specified periods, in any specified quantities or at any set price, except as may be specified in a particular purchase order. In the event of a disruption or delay in supply, or inability to obtain products, we may not be able to develop an alternate source in a timely manner or at favorable prices, or at all. While we regularly monitor our inventory of supplies, a failure to find acceptable alternative sources could hurt our ability to deliver high-quality products to our customers and negatively affect our operating margins.

Reliance on our suppliers exposes us to potential supplier production difficulties, quality variations and unforeseen price increases. Our customers rely upon our ability to meet committed delivery dates, and any disruption in the supply of key components would seriously adversely affect our ability to meet these dates and could result in loss of customers, harm to our ability to attract new customers, or legal action by our customers. Defense-expedite rated orders from the U.S. federal government, which by law receive priority, can also interrupt scheduled shipments to our other customers. Additionally, any unforeseen price increases could reduce our profitability or force us to increase our prices, which could result in a loss of customers or harm our ability to attract new customers and could have a material adverse effect on our consolidated financial statements.

Our customer contracts also generally allow customers to reschedule delivery dates or cancel orders within certain time frames before shipment without penalty and outside those times frames with a penalty. Because of these and other factors, there are risks of excesses or inadequate inventory that could negatively affect our expenses, revenue and earnings.

The market for some of our products depends on the availability and demand for other vendors' products.

Some of our products, particularly those addressing the Unified Communications market, are designed to function with other vendors' products. In these cases, demand for our products is dependent upon the availability, demand for, and sales of the other vendors' products, as well as the degree to which our products successfully interoperate with the other vendors' products and add value to the solution being provided to the customer. If the other vendors change the design of their products, delay the issuance of new releases, fail to adequately market their products, or are otherwise unsuccessful in building a market for their products, the demand for our products will be adversely affected.

If we fail to hire and retain needed personnel, the implementation of our business plan could slow or our future growth could be jeopardized.

Our business depends upon highly skilled technical, managerial, engineering, sales, marketing and customer support personnel. Competition for these personnel is intense, especially during times of economic recovery or growth. Any failure to hire, assimilate in a timely manner and retain needed qualified personnel, particularly engineering and sales personnel, could impair our growth and make it difficult to meet key objectives, such as timely and effective product introductions. These risks may be heightened by the cost reduction program we announced in April 2015.

Our future success depends upon the continued services of our executive officers who have critical industry experience and relationships that we rely on to implement our business plan. With the exception of certain key employees based in the European Union, none of our officers or key employees is bound by an employment agreement for any specific term. The loss of the services of any of our officers or key employees could delay the development and introduction of, and negatively impact our ability to sell, our products and achieve our business objectives.

We had one executive departure in 2014: the departure of our Executive Vice President of Strategy and Go-to-Market in July 2014. We had two executive departures in 2013: the departures of our former Senior Vice President, Global Services and Systems Management in August 2013 and our Senior Vice President and Chief Financial Officer in November 2013. We had two executive departures in 2012: the departures of our Senior Vice President of Engineering and Chief Technology Officer in August 2012 and our Vice President of Human Resources in September 2012. While we have since hired replacements and promoted certain individuals, there is always a risk of uncertainty and instability relating to our ability to find highly qualified successors for certain executive positions and to transition the duties and responsibilities of any departing key executive in an orderly manner.

If we are not able to obtain necessary licenses or on-going maintenance and support of third-party technology at acceptable prices, on acceptable terms, or at all, it could harm our operating results or business.

We have incorporated third-party licensed technology, including open source software, into our current products. From time to time, we may be required to license additional technology from third parties to develop new products or product enhancements. Third-party licenses and on-going maintenance and support may not be available or continue to be available to us on commercially reasonable terms or may be available to us but only at significantly escalated pricing. Additionally, we may not be able to replace the functionality provided by third-party software currently offered with our products if that software becomes obsolete, defective or incompatible with future versions of our products or is not adequately maintained or updated. The inability to maintain or re-license any third-party licenses required in our current products or to obtain any new third-party licenses to develop new products and product enhancements could require us to obtain substitute technology of lower quality or performance standards or at greater cost, and delay or prevent us from making these products or enhancements, any of which could seriously harm the competitiveness of our products. Any significant interruption in the availability of these third-party software products or defects in these products could harm our sales unless and until we can secure an alternative source. Although we believe there are adequate alternate sources for the technology licensed to us, such alternate sources may not provide us with the same functionality as that currently provided to us.

We test our products before they are deployed. However, because our larger scale products are sophisticated and designed to be deployed in complex environments, they may have errors or defects that we find only after full deployment, which could seriously harm our business.

Our larger scale products are sophisticated and are designed to be deployed in large and complex networks. We test our products before they are deployed. However, because of the nature of our products, they can only be fully tested when substantially deployed in very large networks with high volumes of traffic. Some of our customers may discover errors or defects in the software or hardware, or the products may not operate as expected after full deployment. As we continue to expand our distribution channel through distributors and resellers, we will need to rely on and support their service and support organizations. If we are unable to fix errors or other performance problems that may be identified after full deployment of our products, we could experience:

- loss of, or delay in, revenues or increased expense;
- loss of customers and market share;
- failure to attract new customers or achieve market acceptance for our products;
- increased service, support and warranty costs and a diversion of development resources; and/or
- costly and time-consuming legal actions by our customers.

Because our larger scale products are deployed in large, complex networks around the world, failure to establish a support infrastructure and maintain required support levels could seriously harm our business.

Our larger scale products are deployed in large and complex networks around the world. Our customers expect us to establish a support infrastructure and maintain demanding support standards to ensure that their networks maintain high levels of availability and performance. To continue to support our customers with these larger scale products, our support organization will need to provide service and support at a high level throughout the world. If we are unable to provide the expected level of support and service to our customers, we could experience:

- loss of customers and market share;
- failure to attract new customers in new markets and geographies;
- increased service, support and warranty costs and a diversion of development resources; and/or
- network performance penalties.

A portion of our revenue is generated from sales to U.S. federal government agencies. Disruptions to, or our failure to effectively develop, manage and maintain our government customer relationships could adversely affect our ability to generate revenue from the sales of certain of our products. Further, such government sales are subject to potential delays and cutbacks, require specific testing efforts, and impose significant compliance obligations.

A portion of our total revenue from product sales comes from contracts with U.S. federal government agencies. None of our current government contracts include long-term purchase commitments. Government sales is a relatively new line of business for us due to our acquisition of NET in August 2012 and our acquisition of PT in February 2014, and disruptions to, or our failure to effectively develop, manage and maintain our government customer relationships, could adversely affect our ability to generate revenue from the sales of our products.

Until recently, a majority of NET's government sales has involved the Promina and NX TDM products and the VX VoIP Secure Voice Gateway, for which sales have declined substantially in recent periods. While governmental agencies have purchased and are evaluating some of our new products for broader deployment, this new line of business may not develop quickly or be sufficient to offset future declines in sales of these legacy products. Spending by government customers fluctuates based on budget allocations and the timely passage of the annual federal budget.

Among the factors that could impact federal government spending and which would reduce our federal government contracting and subcontracting business are a significant decline in, or reapportioning of, spending by the federal government; changes, delays or cancellations of federal government programs or requirements; the adoption of new laws or regulations that affect companies that provide services to the federal government; federal government shutdowns or other delays in the government appropriations process; changes in the political climate, including with regard to the funding of products we provide; and general economic conditions. The loss or significant curtailment of any government contract or subcontracts, whether due to our performance or due to interruptions of or changes in governmental funding for such contracts or subcontracts, could have a material adverse effect on our business, results of operations and financial condition.

The Department of Defense ("DOD") has issued specific requirements for IP networking products for features and interoperability. In order for a vendor's product to be used to connect to the DOD network, that product must pass a series of significant tests and be certified by the Joint Interoperability Test Command (“JITC”). Certain of our products are already certified by JITC, including the Sonus SBC 5110 and the Sonus SBC 5210 session border controllers, as well as the Sonus NX1000 IP Access Switch, the Promina 800 Multiplexor and the VX900 VoIP Secure Voice Gateway. However, if we are unable to obtain JITC certification as needed, our DOD sales, and hence our revenue and results of operations, may suffer.

A limited portion of the revenue generated from our government customers is based on our contract with the General Services Administration (“GSA”). This contract imposes significant compliance and reporting obligations on us. The contract also establishes a fixed price under which government customers may purchase our products and provides for automatic mandatory price reductions upon certain events. In addition, the GSA can impose financial penalties for non-compliance.

Consolidation in the telecommunications industry could harm our business.

The telecommunications industry has experienced consolidation, including the acquisitions of Acme Packet, Inc. and Tekelec by Oracle Corporation in 2013, and we expect this trend to continue. Consolidation among our customers may cause delays or reductions in capital expenditure plans and/or increased competitive pricing pressures as the number of available customers declines and the relative purchasing power of customers increases in relation to suppliers. Any of these factors could adversely affect our business.

We are exposed to the credit risk of some of our customers and to credit exposures in fragile financial markets, which could result in material losses.

Due to our reliance on significant customers, we are dependent on the continued financial strength of our customers. If one or more of our significant customers experience financial difficulties, it could result in uncollectable accounts receivable and our loss of significant customers and anticipated revenue.

Most of our sales are on an open credit basis, with typical payment terms of 30 to 60 days. We monitor individual customer payment capability in granting such open credit arrangements, seeking to limit such open credit to amounts we believe our customers can pay and maintain reserves we believe are adequate to cover exposure for doubtful accounts. However, there can be no assurance that our open credit customers will pay the amounts they owe to us or that the reserves we maintain will be adequate to cover such credit exposure. Our customers' failure to pay and/or our failure to maintain sufficient reserves could have a material adverse effect on our consolidated financial statements. Additionally, in the event that turmoil in the credit markets makes it more difficult for some customers to obtain financing, those customers' ability to pay could be adversely impacted, which in turn could have a material adverse impact on our business and consolidated financial statements.

A portion of our sales is derived through our distributors. As distributors tend to have more limited financial resources than other resellers and end-user customers, they generally represent sources of increased credit risk.

The hardware products that we purchase from our third-party vendors have life cycles, and some of those products have reached the end of their life cycles. If we are unable to correctly estimate future requirements for these products, it could harm our operating results or business.

Some of the hardware products that we purchase from our third-party vendors have reached the end of their life cycles. It may be difficult for us to maintain appropriate levels of the discontinued hardware to adequately ensure that we do not have a shortage or surplus of inventory of these products. If we do not correctly forecast the demand for such hardware, we could have excess inventory and may need to write off the costs related to such purchases. The write-off of surplus inventory could materially and adversely affect our operating results. However, if we underestimate our forecast and our customers place orders to purchase more products than are available, we may not have sufficient inventory to support their needs. If we are unable to provide our customers with enough of these products, it could make it difficult to retain certain customers, which could have a material and adverse effect on our business.

Man-made problems, such as computer viruses, hacking or terrorism, and natural disasters may disrupt our operations and harm our operating results.

Despite our implementation of network security measures, our servers are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems. Any attack on our servers could have a material adverse effect on our business and consolidated financial statements. Additionally, the information systems of our customers could be compromised due to computer viruses, break-ins and hacking, which could lead to unauthorized tampering with our products and may result in, among other things, the disruption of our customers' business, errors or defects occurring in the software due to such unauthorized tampering, and our products not operating as expected after such unauthorized tampering. Such consequences could affect our reputation and have a material adverse effect on our business and consolidated financial statements. Efforts to limit the ability of malicious third parties to disrupt the operations of the Internet or undermine our own security efforts may be met with resistance. In addition, the continued threat of terrorism and heightened security and military action in response to this threat, or any future acts of terrorism, may cause further disruptions to the economies of the United States and other countries and create further uncertainties or otherwise materially harm our business and consolidated financial statements. Likewise, events such as work stoppages or widespread blackouts could have similar negative impacts. Such disruptions or uncertainties could result in delays or cancellations of customer orders or the manufacture or shipment of our products and have a material adverse effect on our business and consolidated financial statements.

Natural catastrophic events, such as earthquakes, fire, floods, or tornadoes, may also affect our or our customers' operations and could have a material adverse effect on our business. Moreover, one of our offices is located in the Silicon Valley area of Northern California, a region known for seismic activity. These facilities are located near the San Francisco Bay where the water table is quite close to the surface and where tenants in nearby facilities have experienced water intrusion problems. A significant natural disaster, such as an earthquake or flood, could have a material adverse effect on our business in this location.

A breach of the security of our information systems or those of our third-party providers could adversely affect our operating results.

We rely upon the security of our information systems and, in certain circumstances, those of our third-party providers, such as vendors, consultants and contract manufacturers, to protect our proprietary information and information of our customers. Despite our security procedures and those of our third-party providers, our information systems and those of our third-party service providers are vulnerable to threats such as computer hacking, cyber-terrorism or other unauthorized attempts by third parties to access, modify or delete our or our customers' proprietary information. Information technology system failures, including a breach of our or our third-party providers' data security measures, or the theft or loss of laptops, other mobile devices or electronic records used to back up our systems or our third-party providers' systems, could result in an unintentional disclosure of customer, employee, or our information or otherwise disrupt our ability to function in the normal course of business by potentially causing, among other things, delays in the fulfillment or cancellation of customer orders or disruptions in the manufacture or shipment of products or delivery of services, any of which could have a material adverse effect on our operating results. These types of security breaches could also create exposure to lawsuits, regulatory investigations, increased legal liability and/or reputational damage. Such consequences could be exacerbated if we or our third-party providers are unable to adequately recover critical systems following a systems failure.

Failure or circumvention of our controls and procedures could impair our ability to report accurate financial results and could seriously harm our business.

Even an effective internal control system, no matter how well designed, has inherent limitations - including the possibility of the circumvention or overriding of controls - and therefore, can provide only reasonable assurance with respect to financial statement preparation. The failure or circumvention of our controls, policies and procedures could impair our ability to report accurate financial results and could have a material adverse effect on our business and consolidated financial statements.

Any changes to existing accounting pronouncements or taxation rules or practices may cause adverse fluctuations in our reported results of operations or affect how we conduct our business.

A change in accounting pronouncements or taxation rules or practices can have a significant effect on our reported results and may affect our reporting of transactions completed before the change is effective. New accounting pronouncements, taxation rules and varying interpretations of accounting pronouncements or taxation rules have occurred in the past and may occur in the future. The change to existing rules, future changes, if any, or the need for us to modify a current tax position may adversely affect our reported financial results or the way we conduct our business. For example, a new revenue recognition standard was issued in 2014 which will be effective for companies in 2017 (however, the Financial Accounting Standards Board has tentatively deferred adoption of the new revenue recognition standard by one year), and could have a material impact on our consolidated financial statements.

Changes in our business strategy related to product and maintenance offerings and pricing could affect revenue recognition.

Our business strategy and competition within the industry could exert pricing pressure on our product and maintenance offerings. Changes in our product or maintenance offerings or packages and related pricing could affect the amount of revenue recognized in a reporting period.

If our goodwill or intangible assets become impaired, we may be required to record a significant charge to earnings.

Under generally accepted accounting principles, we review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Our intangible assets increased by approximately $11 million in 2015 as a result of our acquisition of the SDN Business, $17 million in 2014 as a result of our acquisition of PT and $17 million in 2012 as a result of our acquisition of NET. Goodwill, which increased by approximately $1 million as a result of our acquisition of the SDN Business, $7 million as a result of our acquisition of PT (net of the reduction of goodwill related to the sale of PT's Multi-Protocol Server business) and $27 million as a result of our acquisition of NET, is tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or intangible assets may not be recoverable include significant underperformance relative to plan or long-term projections, strategic changes in business strategy, significant negative industry or economic trends, significant change in circumstances relative to a large customer, significant decline in our stock price for a sustained period and decline in our market capitalization to below net book value.

Failure by our strategic partners or by us in integrating products provided by our strategic partners could harm our business.

Our solutions include the integration of products supplied by strategic partners, who offer complementary products and services. We rely on these strategic partners in the timely and successful deployment of our solutions to our customers. If the products provided by these partners have defects or do not operate as expected, if the services provided by these partners are not completed in a timely manner, or if we do not effectively integrate and support products supplied by these strategic partners, then we may have difficulty with the deployment of our solutions that may result in:

- loss of, or delay in, revenues;

- increased service, support and warranty costs and a diversion of development resources; and
- network performance penalties.

In addition to cooperating with our strategic partners on specific customer projects, we also may compete in some areas with these same partners. If these strategic partners fail to perform or choose not to cooperate with us on certain projects, in addition to the effects described above, we could experience:

- loss of customers and market share; and
- failure to attract new customers or achieve market acceptance for our products.

Our use and reliance upon research and development resources in India may expose us to unanticipated costs and/or liabilities.

We have a significant research and development center in Bangalore, India and have increased headcount and development activity at this facility. The employees at this facility consist principally of research and development personnel. There is no assurance that our reliance upon development resources in India will enable us to achieve meaningful cost reductions or greater resource efficiency. Further, our development efforts and other operations in India involve significant risks, including:

- difficulty hiring and retaining appropriate engineering and management resources due to intense competition for such resources and resulting wage inflation;
- knowledge transfer related to our technology and resulting exposure to misappropriation of intellectual property or information that is proprietary to us, our customers and other third parties;
- heightened exposure to changes in economic, security and political conditions in India; and
- fluctuations in currency exchange rates and tax compliance in India.

Difficulties resulting from the factors noted above and other risks related to our operations in India could increase our expenses, impair our development efforts, harm our competitive position and damage our reputation.

Failure to comply with the Foreign Corrupt Practices Act or the UK Bribery Act could subject us to significant civil or criminal penalties.

We earn a significant portion of our total revenues from international sales generated through our foreign direct and indirect operations. As a result, we are subject to the Foreign Corrupt Practices Act of 1977, as amended (the "FCPA"), and the UK Bribery Act of 2010 (the "UKBA"), which are laws that prohibit bribery in the conduct of business. The FCPA generally prohibits U.S. companies and their intermediaries from making corrupt payments to foreign officials for the purpose of obtaining or keeping business or otherwise obtaining favorable treatment, and requires companies to maintain adequate record-keeping and internal accounting practices to accurately reflect the transactions of the company. The FCPA applies to companies, individual directors, officers, employees and agents. The UKBA is much broader and prohibits all bribery, in both the public and private sectors. Although the UKBA does not contain a separate financial records provision, such a requirement is captured under other UK legislation. Under the FCPA and the UKBA, U.S. companies, their subsidiaries, employees, senior officers and/or directors may be held liable for actions taken by strategic or local partners or representatives. In addition, the U.S. government or the UK government, as applicable, may seek to hold us liable for successor liability violations committed by companies in which we acquire. If we or our intermediaries fail to comply with the requirements of the FCPA and the UKBA, governmental authorities in the United States and the United Kingdom, as applicable, could seek to impose civil and/or criminal penalties, which could have a material adverse effect on our reputation and consolidated financial statements.

Compliance with new regulations regarding the use of conflict minerals may disrupt our operations and harm our operating results.

In August 2012, under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the Securities and Exchange Commission adopted new requirements for companies that use certain minerals and derivative metals (referred to as "conflict minerals" regardless of their actual country of origin) in their products. These metals, which include tantalum, tin, gold and tungsten, are central to the technology industry and are present in our products as component parts. As a result, we are required to investigate and disclose whether or not the conflict minerals that are used in our products originated from the Democratic Republic of the Congo or adjoining countries. There are various costs associated with these investigation and disclosure requirements, in addition to the potential costs of changes to products, processes or sources of supply as a consequence of such activities. In addition, the implementation of these rules could adversely affect the sourcing, supply and pricing of materials used in our products. Also, we may face reputational challenges if we are unable to sufficiently verify the origins for all conflict minerals used in our products through the procedures we may implement or if we are unable to replace any conflict minerals used in our products that are sourced from the Democratic Republic of the Congo or adjoining countries, as there may not be any acceptable alternative sources of the conflict minerals in question or alternative materials that have the properties we need for our products. We may also encounter challenges to satisfy those customers who require that all of the components of our products be certified as conflict-free. If we are not able to meet customer requirements, customers may choose to disqualify us as a supplier and we may have to write off inventory in the event that it cannot be sold. These changes could also have an adverse impact in our ability to manufacture and market our products.

We are subject to governmental export and import controls that could subject us to liability, require a license from the U.S. government or impair our ability to compete in international markets.

Our products are subject to U.S. export controls and may be exported outside the United States only with the required level of export license or through an export license exception because we incorporate encryption technology into our products. Under these laws and regulations, we are responsible for obtaining all necessary licenses or other approvals, if required, for exports of hardware, software and technology, as well as the provision of service. Obtaining export licenses can be difficult and time-consuming, and in some cases a license may not be available on a timely basis or at all.

In addition, various countries regulate the import of certain encryption technology and have enacted laws that could limit our ability to distribute our products or our customers' ability to implement our products in those countries. Changes in our products or changes in export and import regulations may create delays in the introduction of our products in international markets, prevent our customers with international operations from deploying our products throughout their global systems or, in some cases, prevent the export or import of our products to certain countries altogether. Any change in export or import regulations or related legislation, shift in approach to the enforcement or scope of existing regulations or change in the countries, persons or technologies targeted by such regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers with international operations. Any decreased use of our products or limitation on our ability to export or sell our products would likely have a material adverse effect on our business and consolidated financial statements.

Regulation of the telecommunications industry could harm our operating results and future prospects.

The telecommunications industry is highly regulated and our business and financial condition could be adversely affected by changes in the regulations relating to the telecommunications industry. Currently, there are few laws or regulations that apply directly to access to or delivery of voice services on IP networks. We could be adversely affected by regulation of IP networks and commerce in any country where we operate, including the United States. Such regulations could include matters such as voice over the Internet or using Internet protocol, encryption technology, and access charges for service providers. The adoption of such regulations could decrease demand for our products, and at the same time increase the cost of selling our products, which could have a material adverse effect on our business and consolidated financial statements.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Issuer Purchases of Equity Securities

The following table provides information with respect to the shares of common stock repurchased by us for the periods indicated:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (3)
January 1, 2015 to January 23, 2015	378	$ 18.50	—	$ 22,838,697
January 24, 2015 to February 20, 2015	201,189	$ 16.65	96,800	$ 21,240,529
February 21, 2015 to March 27, 2015	285,900	$ 16.47	170,740	$ 16,762,242
Total	487,467	$ 16.56	267,540	$ 16,762,242

(1) Upon vesting of restricted stock awards, our employees are permitted to return to us a portion of the newly vested shares to satisfy the tax withholding obligations that arise in connection with such vesting. During the first quarter of fiscal 2015,

220,017 shares of restricted stock were returned to us by employees to satisfy tax withholding obligations arising in connection with vesting of restricted stock, which shares are included in this column.

(2) Consists of shares repurchased pursuant to a stock buyback program announced on July 29, 2013 (the "2013 Buyback Program"). Under the 2013 Buyback Program, our Board of Directors has authorized the repurchase of up to $100 million of our common stock from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares repurchased will be determined by our management based on its evaluation of market conditions and other factors. We may elect to implement a 10b5-1 repurchase program, which would permit shares to be repurchased when we might otherwise be precluded from doing so under insider trading laws. The 2013 Buyback Program may be suspended or discontinued at any time. The 2013 Buyback Program is being funded using our working capital.

(3) Consists of amounts that remain available for repurchases under the 2013 Buyback Program.

Item 6. Exhibits

Exhibit No.	Description
3.1	Certificate of Amendment of Fourth Amended and Restated Certificate of Incorporation of Sonus Networks, Inc. (incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K, filed January 30, 2015 with the SEC).
10.1 +	Amended and Restated Employment Agreement between Sonus Networks, Inc. and Raymond P. Dolan, accepted on February 23, 2015 (incorporated by reference to Exhibit 10.17 to the registrant's Annual Report on Form 10-K, filed February 25, 2015 with the SEC).
10.2	Earn-Out Agreement, dated as of January 2, 2015, by and among Sonus Networks, Inc., Treq Labs, Inc. and Karl F. May as the Seller Representative (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K, filed January 8, 2015 with the SEC).
10.3 +	Employment Agreement between Sonus Networks, Inc. and Brian O'Donnell, accepted on November 19, 2012 (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K, filed February 18, 2015 with the SEC).
10.4 * +	Form of Restricted Stock Unit Award Agreement (Performance-Based Vesting) for Awards Granted on March 16, 2015 under the 2007 Stock Incentive Plan, as amended.
31.1 *	Certificate of Sonus Networks, Inc. Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 *	Certificate of Sonus Networks, Inc. Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 #	Certificate of Sonus Networks, Inc. Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 #	Certificate of Sonus Networks, Inc. Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

\# Furnished herewith.

\+ Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: April 27, 2015	SONUS NETWORKS, INC.
	By: /s/ Mark T. Greenquist
	Mark T. Greenquist Chief Financial Officer (Duly Authorized Officer and Principal Financial Officer)

EXHIBIT INDEX

3.1	Certificate of Amendment of Fourth Amended and Restated Certificate of Incorporation of Sonus Networks, Inc. (incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K, filed January 30, 2015 with the SEC).
10.1 +	Amended and Restated Employment Agreement between Sonus Networks, Inc. and Raymond P. Dolan, accepted on February 23, 2015 (incorporated by reference to Exhibit 10.17 to the registrant's Annual Report on Form 10-K, filed February 25, 2015 with the SEC).
10.2	Earn-Out Agreement, dated as of January 2, 2015, by and among Sonus Networks, Inc., Treq Labs, Inc. and Karl F. May as the Seller Representative (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K, filed January 8, 2015 with the SEC).
10.3 +	Employment Agreement between Sonus Networks, Inc. and Brian O'Donnell, accepted on November 19, 2012 (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K, filed February 18, 2015 with the SEC).
10.4 * +	Form of Restricted Stock Unit Award Agreement (Performance-Based Vesting) for Awards Granted on March 16, 2015 under the 2007 Stock Incentive Plan, as amended.
31.1 *	Certificate of Sonus Networks, Inc. Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 *	Certificate of Sonus Networks, Inc. Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 #	Certificate of Sonus Networks, Inc. Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 #	Certificate of Sonus Networks, Inc. Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

\# Furnished herewith.

\+ Management contract or compensatory plan or arrangement.

Exhibit 10.4

Sonus Networks, Inc.
2007 Stock Incentive Plan, as Amended

Restricted Stock Unit Award Agreement
(Performance-Based Vesting)

THIS RESTRICTED STOCK UNIT AWARD AGREEMENT (the “Agreement”), is made effective as of March 16, 2015 (the “Grant Date”), between Sonus Networks, Inc., a Delaware corporation (the “Company”), and [___________] (the “Participant”).

RECITALS

WHEREAS, the Company has adopted the Sonus Networks, Inc. 2007 Stock Incentive Plan, as Amended (the “Plan”), which Plan is incorporated herein by reference and made a part of this Agreement (capitalized terms not otherwise defined herein shall have the meanings as set forth in the Plan); and

WHEREAS, the Board has determined that it is in the best interests of the Company and its stockholders to grant to the Participant the restricted stock units described herein pursuant to the Plan and the terms set forth below;

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, the parties agree as follows:

1. *Award of Restricted Stock Units.* Subject to the terms and conditions of the Plan and this Agreement and in consideration of employment services rendered and to be rendered by the Participant to the Company, the Company hereby grants to the Participant [________] restricted stock units (the “Restricted Stock Units”). Each Restricted Stock Unit entitles the Participant to such number of shares of Company Common Stock, subject to continued employment, upon vesting as is determined pursuant to Section 2 hereof.

2. *Vesting of Restricted Stock Units.*

(a) Upon the vesting of the Award, as described in this Section and Schedule 1 attached hereto, the Company shall deliver for each Restricted Stock Unit that vests, the number of shares of Company Common Stock as is determined pursuant to Schedule 1. The Company Common Stock shall be delivered as soon as practicable following each Vesting Date (as defined in Schedule 1), but in any case within 30 days after such date.

(b) Subject to Section 2(c) and Section 3, the Restricted Stock Units shall vest in accordance with the terms set forth in Schedule 1 attached hereto.

(c) Notwithstanding Section 2(b), upon, as applicable, [(i) an Acquisition, (ii) the Participant’s death or disability, (iii) the Participant’s termination of employment by the Company other than for Cause or (iv) the Participant’s resignation of employment with the Company for Good

Reason], the Award shall become subject to the acceleration of vesting [applicable to "performance shares"][applicable to "restricted shares"] under the terms of the Participant's employment agreement with the Company, subject to any terms and conditions set forth in the Plan or imposed by the Compensation Committee of the Board of Directors (the "Committee"). The terms ["Acquisition", "Cause" and "Good Reason"] used in this Section 2(c) are each as defined in the Participant's employment agreement with the Company.

3. *Termination of Employment.* Subject to Section 2(c) and notwithstanding any other provision of the Plan to the contrary, upon the termination of the Participant's employment with the Company and its subsidiaries, the Award, to the extent not yet vested, shall immediately and automatically terminate; provided, however, that the Committee may, in its sole and absolute discretion agree to accelerate the vesting of the Award, upon termination of employment or otherwise, for any reason or no reason, but shall have no obligation to do so.

For purposes of the Plan and the Award, a termination of employment shall be deemed to have occurred on the date upon which the Participant ceases to perform active employment duties for the Company or its subsidiaries following the provision of any notification of termination or resignation from employment, and without regard to any period of notice of termination of employment (whether expressed or implied) or any period of severance or salary continuation. Notwithstanding any other provision of the Plan, the Award, this Agreement or any other agreement (written or oral) to the contrary, the Participant shall not be entitled (and by accepting an Award, thereby irrevocably waives any such entitlement) to any payment or other benefit to compensate the Participant for the loss of any rights under the Plan as a result of the termination or expiration of an Award in connection with any termination of employment. No amounts earned pursuant to the Plan or any Award shall be deemed to be eligible compensation in respect of any other plan of the Company or any of its subsidiaries.

4. *No Assignment.* Except as expressly permitted under the Plan, this Agreement may not be assigned by the Participant by operation of law or otherwise.

5. *No Rights to Continued Employment.* The granting of this Award evidenced hereby and this Agreement shall impose no obligation on the Company or any of its affiliates to continue the employment or service of the Participant and shall not lessen or affect any right that the Company or any of its affiliates may have to terminate the service of such Participant. The Participant shall remain a Participant at will.

6. *Governing Law.* This Agreement will be governed by and interpreted and construed in accordance with the internal laws of the State of Delaware (without reference to principles of conflicts or choice of law) as to all matters, including, but not limited to, matters of validity, construction, effect, performance and metrics.

7. *Tax Obligations.* As a condition to the granting of the Award and the vesting thereof, the Participant acknowledges and agrees that he/she is responsible for the payment of income and employment taxes (and any other taxes required to be withheld) payable in connection with the vesting of an Award. Accordingly, the Participant agrees to remit to the Company or any applicable subsidiary an amount sufficient to pay such taxes. Such payment shall be made to the Company or the applicable subsidiary of the Company in a form that is reasonably acceptable to the Company, as the Company may determine in its sole discretion. Notwithstanding the foregoing, the Company

may retain and withhold from delivery at the time of vesting that number of shares of Company Common Stock having a fair market value equal to the taxes owed by the Participant, which retained shares shall fund the payment of such taxes by the Company on behalf of the Participant. The Participant acknowledges that he or she is responsible for reviewing with his or her own tax advisors the federal, state, local and other tax consequences of the transactions contemplated by this Agreement. The Participant acknowledges that he or she is not relying on any statements or representations of the Company or any of its agents.

8. *Notices.* Any notification required by the terms of this Agreement shall be given in writing and shall be deemed effective upon personal delivery or within three (3) days of deposit with the United States Postal Service or the local equivalent of the United States Postal Service, by registered or certified mail, with postage and fees prepaid. A notice shall be addressed to the Company, Attention: General Counsel, at its principal executive office and to the Participant at the address he or she most recently provided to the Company.

9. *Failure to Enforce Not a Waiver.* The failure of the Company to enforce at any time any provision of this Agreement shall in no way be construed to be a waiver of such provision or of any other provision hereof.

10. *Amendments.* This Agreement may be amended or modified only by a written agreement signed by the Company and the Participant; provided, however, that the Board may amend or alter this Agreement and the Award granted hereunder at any time, subject to the terms of the Plan.

11. *Authority.* The Committee has complete authority and discretion to determine Awards, and to interpret and construe the terms of the Plan and this Agreement. The determination of the Committee as to any matter relating to the interpretation or construction of the Plan or this Agreement shall be final, binding and conclusive on all parties.

12. *Successors.* This Agreement will bind and inure to the benefit of the parties and their respective successors, permitted assigns, heirs, devisees, and legal representatives.

13. *Entire Agreement*. Except as set forth herein, this Agreement and the Plan supersede all prior agreements, whether written or oral and whether express or implied, between the Participant and the Company relating to the subject matter of this Agreement. Notwithstanding the foregoing, to the extent that the Participant has entered into an employment agreement with the Company and the terms noted in such employment agreement are inconsistent with or conflicts with this Agreement, then the terms of the employment agreement will supersede the inconsistent or conflicting terms set forth herein as determined by the Board in accordance with Section 3(a) of the Plan. In all other respects, this Agreement shall remain in full force and effect.

14. *Rights as a Stockholder.* The Participant shall have no rights as a stockholder of the Company with respect to any shares of Common Stock of the Company underlying or relating to any Award until the issuance of a stock certificate to the Participant in respect of such Award.

15. *Erroneously Awarded Compensation*. All Awards, if and to the extent subject to the Dodd-Frank Wall Street Reform and Consumer Protection Act, shall be subject to any incentive compensation policy established from time to time by the Company to comply with such Act.

16. *Severability*. The provisions of this Agreement are severable and if any one or more provisions are deemed to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

17. *Captions*. The captions of the sections of this Agreement are for reference only and will not affect the interpretation or construction of this Agreement.

18. *Signature in Counterparts*. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement will not be binding on either party unless and until signed by both parties.

[*Signature Page Follows*]

IN WITNESS WHEREOF, this Agreement is effective as of the date first above written.

SONUS NETWORKS, INC.

By: ________________________
Name:
Title:

Agreed and acknowledged as
of the date first above written:

____
[PARTICIPANT]

Schedule 1

1. As illustrated in the chart below, up to 120% of one-third of the Restricted Stock Units subject to this Award shall vest, in accordance with the terms of this Schedule 1, upon each of the first, second and third anniversaries of the Grant Date (collectively, the “Vesting Dates”), provided that, subject to Sections 2(c) and 3 of the Agreement, the Participant is employed by the Company or a subsidiary of the Company on the applicable Vesting Date.

Restricted Stock Units	**Vesting Date**
Up to 120% of 1/3 of aggregate number of RSUs	March 16, 2016 (the “First Vesting Date”)
Up to 120% of 1/3 of aggregate number of RSUs	March 16, 2017 (the “Second Vesting Date”)
Up to 120% of 1/3 of aggregate number of RSUs	March 16, 2018 (the “Third Vesting Date”)

2. The number of Restricted Stock Units that shall become vested on any Vesting Date shall be determined by the Committee following the end of the applicable Performance Period (as defined below) by reference to the Company’s total shareholder return (“TSR”) for the relevant Performance Period relative to the TSR of each of the companies included in the NASDAQ Telecommunications Index (the “Index”) for the same Performance Period (the “Relative TSR”). Companies that enter the Index after the start of a Performance Period will be *excluded* from the Relative TSR measurement for such Performance Period. Companies that leave the Index after the start of a Performance Period, including, but not limited to, in the event of bankruptcy proceedings, will remain *included* in the Relative TSR measurement for such Performance Period.

   The Company’s achievement will be measured on a linear sliding scale between the 25th and 75th percentiles of Relative TSR; provided, however, that there shall be no linear sliding scale for a Relative TSR that is less than the 25th percentile or greater than the 75th percentile. Upon achievement of:

   - Relative TSR at the 25th percentile, 80% of the Restricted Stock Units then subject to vesting shall vest;
   - Relative TSR at the 50th percentile (“Target Performance”), 100% of the Restricted Stock Units then subject to vesting shall vest;
   - Relative TSR at the 75th percentile, 120% of the Restricted Stock Units then subject to vesting shall vest.

   Notwithstanding the foregoing, if the Company’s TSR is negative for any Performance Period, the Restricted Stock Units then subject to vesting may not vest in excess of Target Performance, even if Relative TSR is above the 50th percentile for such Performance Period.

3. For the avoidance of doubt, the Restricted Stock Units that do not become vested, including after application of the acceleration of vesting provisions in the Participant's employment agreement with the Company in accordance with Section 2(c) of this Agreement, upon the applicable Vesting Date, if any, shall be immediately forfeited and terminated and the Participant shall have no further rights with respect thereto.

4. Definitions. For this purpose,

    a. "Performance Period" shall mean for the Restricted Stock Units subject to vesting on the First Vesting Date, the one-year period beginning on January 1, 2015 and ending on December 31, 2015; for the Restricted Stock Units subject to vesting on the Second Vesting Date, the one-year period beginning on January 1, 2016 and ending on December 31, 2016; for the Restricted Stock Units subject to vesting on the Third Vesting Date, the one-year period beginning on January 1, 2017 and ending on December 31, 2017; and

    b. "TSR" for each Performance Period, will be equal to (a) (i) the average closing price per share of Common Stock for the 30 trading days immediately prior to and including the *last* trading day of the applicable Performance Period minus (ii) the average closing price per share of Common Stock for the 30 trading days immediately prior to and including the *first* trading day of the applicable Performance Period (the "Beginning Stock Price"), plus (y) the amount of dividends, if any, paid on a per share basis cumulatively over the applicable Performance Period, divided by (z) the Beginning Stock Price. TSR will be calculated to the closest hundredth of a percent.

EXHIBIT 31.1

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Raymond P. Dolan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sonus Networks, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 27, 2015

/s/ Raymond P. Dolan

Raymond P. Dolan
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Mark T. Greenquist, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sonus Networks, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 27, 2015

/s/ Mark T. Greenquist

Mark T. Greenquist
Chief Financial Officer (Principal Financial Officer)

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Sonus Networks, Inc. (the "Company") for the period ended March 27, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Raymond P. Dolan, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2015

/s/ Raymond P. Dolan

Raymond P. Dolan
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Sonus Networks, Inc. (the "Company") for the period ended March 27, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Mark T. Greenquist, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2015

/s/ Mark T. Greenquist

Mark T. Greenquist
Chief Financial Officer
(Principal Financial Officer)