



July 30, 2014

## Sonus Networks Reports 2014 Second Quarter Results

*Growth-related Revenue up 34% Compared to Second Quarter 2013*

*GAAP Loss per Share of \$0.02 and Non-GAAP Diluted Earnings per Share of \$0.02*

WESTFORD, Mass.--(BUSINESS WIRE)-- [Sonus Networks](#), Inc. (Nasdaq: SONS), a global leader in securing real-time communications, today announced results for the second quarter ended June 27, 2014.

### Second Quarter 2014 Highlights

- Total Company revenue was \$75.6 million, up 9% compared to the second quarter of 2013.
- Total Growth-related revenue<sup>1</sup> was \$38.9 million, up 34% compared to the second quarter of 2013.
- Channel sales comprised 29% of product revenue, the highest contribution to-date.
- Company reported revenue from 798 customers, up 48% compared to the second quarter of 2013.
- GAAP gross margins were 62.6%; non-GAAP gross margins were 65.2%.
- GAAP loss per share was \$0.02; non-GAAP diluted earnings per share were \$0.02.
- Began shipping the Sonus SBC 7000 Session Border Controller (SBC 7000), representing fastest time-to-revenue for any new product in the Company's history.

### Quotes

"Our team has made excellent progress this year, meeting or exceeding all of our financial targets. I'm particularly proud that we have now demonstrated five consecutive quarters of non-GAAP profitability," said Ray Dolan, president and chief executive officer. "Looking to the second half of 2014, we are well-positioned to deliver on our targets while also continuing to strengthen our strategic relationships with tier one service providers around the globe."

Mark Greenquist, chief financial officer, commented, "Our growth-related revenue grew 34% year over year. Contributing to this strong performance was approximately \$5 million in revenue from the recently launched SBC 7000, which only began shipping in the last week of June. This product launch represented the fastest time-to-revenue of any new product in the Company's history." Greenquist continued, "Our revenue guidance for the remainder of this year considers the potential for a large order to be recognized in 2015 instead of this year as originally projected. Despite this timing, based on the strength of our bookings and a robust funnel, we are reiterating our full year revenue forecast of \$300 million, including \$168 million of growth-related revenue. Higher than projected gross margins in the first half, primarily as a result of greater software-oriented product revenue, coupled with disciplined expense control, allow us to increase our non-GAAP EPS guidance for the year from \$0.05 to \$0.07."

### SBC 7000

The recently launched Sonus SBC 7000 Session Border Controller has been selected for deployment by several tier one service providers and a leading call center provider, marking the fastest time-to-revenue for any new product in the Company's history. Providing support for up to 150,000 sessions, the SBC 7000 sets a new performance and capacity standard in the industry for secure, reliable delivery of voice, video and collaboration services. It is purpose-built to support emerging services such as high definition (HD) voice and video, Voice over Long-Term Evolution (VoLTE) and Rich Communications Services (RCS), and effectively addresses the unprecedented traffic demands these services will place on networks at access and interconnect borders.

## Share Repurchases

The Company has repurchased 42.3 million shares of common stock (15% of the shares that were outstanding at June 28, 2013) at an average price per share of \$3.37. As of June 27, 2014, the Company had 246.3 million shares outstanding. Approximately \$32 million remains available to the Company for potential share repurchases under the current stock buyback program.

## Cash & Investments

The Company ended the second quarter of 2014 with \$149.5 million in cash and investments, including the impact of the share repurchases described above.

## Organizational Changes

The Company has made significant progress over the past few years in successfully transitioning the business to sustainable growth and profitability including:

- expanding into high growth next generation communications markets including SBCs (Session Border Controllers) and DSCs (Diameter Signaling Controllers);
- substantially improving product quality while also increasing the pace of innovation;
- establishing a robust global channel program and expanding into the enterprise market;
- improving manufacturing processes, thereby enabling the Company to be more agile and cost effective; and
- driving broad process improvements across the Company, allowing resources to be redirected into growth areas while also delivering sustained increases in profitability.

In an effort to further accelerate the Company's progress, the following organizational changes are being announced, effective immediately:

- Anthony Scarfo has been named Executive Vice President, Product Management and Corporate Development. Scarfo was most recently Executive Vice President, Technology Development, where he was responsible for helping Sonus establish leadership in a number of key technology areas, including moving the entire Sonus SBC product portfolio into software in order to enable emerging cloud architectures.
- Kevin Riley has been named Vice President, Engineering and Chief Technology Officer. Riley, who will be a direct report to President and CEO, Ray Dolan, has served as the Company's CTO since January 2014 and has over 20 years of software development and engineering experience. He has been instrumental in the Company's efforts to drive an industry leading technology roadmap, including the award winning Sonus SBC SWe (software edition) and SBC 7000, the most successful new product introduction in the Company's history. Riley will continue to drive the Company's innovation and development activities, with particular focus on enabling SDN and NFV cloud-based architectures of the future.
- Todd Abbott has stepped down as the Company's Executive Vice President, Strategy and Go-to-Market, but will remain with the Company in an advisory role until mid-October to assist with an orderly transition of his responsibilities. Abbott has been instrumental over the past three years in creating the Company's channel program and expanding the Company's presence into the enterprise market.
- Michael Swade, Vice President, North American Sales since May 2014, will assume the role of Interim Senior Vice President, Worldwide Sales and Marketing. Swade has nearly 20 years of experience with various sales and marketing leadership positions within the communications industry. He was most recently Executive Vice President, Sales at Yorktel, a leading global provider of UC&C, cloud, and video managed services for large enterprise and federal government customers. Prior to Yorktel, Swade was at Polycom in various senior leadership roles including Senior Vice President, Field Operations, President, Europe, and Vice President, Service Provider and UC Sales. Swade brings additional leadership experience from Lucent Technologies and Avaya.

## Outlook

The Company's outlook is based on current indications for its business, which may change during the current quarter. Gross margin, operating expenses and EPS are presented on a non-GAAP basis. A reconciliation of the non-GAAP to GAAP outlook and a statement on the use of non-GAAP financial measures are included at the end of this press release. Full year 2014 (FY14) Total Company Revenue outlook of \$300 million includes approximately \$15 million from Performance Technologies, Incorporated (PT). FY14 Growth-related Revenue outlook of \$168 million includes approximately \$3 million from PT DSCs. FY14 EPS guidance of \$0.07 includes a loss of approximately \$0.01 from PT.

|                                   | Q314                 | Q414                     | FY14          |
|-----------------------------------|----------------------|--------------------------|---------------|
| <b>Total Company Revenue</b>      | \$70 to \$73 million | \$81 to \$84 million     | \$300 million |
| <b>Growth-related Revenue</b>     | \$39 to \$41 million | \$47.5 to \$49.5 million | \$168 million |
| <b>Gross Margin</b>               | 65% to 66%           | Not provided             | Not provided  |
| <b>Opex</b>                       | \$44 to \$45 million | Not provided             | Not provided  |
| <b>EPS</b>                        | \$0.01               | \$0.03                   | \$0.07        |
| <b>Diluted Shares Outstanding</b> | 249 million          | 248 million              | 255 million   |

1) Growth-related revenue consists primarily of SBCs and DSCs. Legacy revenue consists primarily of Trunking and SS7 Signaling. Certain of our products can contribute to either growth-related revenue or legacy revenue, depending on the use for which our customers purchase them. For more information about how we determine whether products contribute to growth-related revenue or legacy revenue, please see the presentation materials and transcript from our Q2 FY2014 earnings call.

### Conference Call Details

Date: July 30, 2014

Time: 8:30 a.m. (ET)

Dial-in number: 800 768 6727

International Callers: +1 212 231 2915

The Company will also offer a live, listen-only webcast of the conference call via the Sonus Networks Investor Relations website at <http://investors.sonusnet.com/events.cfm>.

### Replay information

A telephone playback of the call will be available following the conference call until August 13, 2014 and can be accessed by calling 800 633 8284 or +1 402 977 9140 for international callers. The reservation number for the replay is 21721114. A webcast replay of the conference call will also be available shortly following the conference call at <http://investors.sonusnet.com/events.cfm> and will be available for six months.

### Tags

Sonus Networks, Sonus, SONS, 2014 second quarter, year-end, earnings, results, IP-based network solutions, SBC, SBC 1000, SBC 2000, SBC 5100, SBC 5200, SBC 7000, SBC 9000, SWe, software edition, software SBC, session border controller, session management, DSC, DEA, DRA, diameter signaling controller, diameter edge agent, diameter routing agent, SIP trunking, Cloud VoIP communications, unified communications, UC, VoIP, IP, media gateway, GSX, TDM.

### About Sonus Networks

Sonus secures real-time communications so the world's leading service providers and enterprises can embrace the next generation of SIP and 4G/LTE solutions including VoIP, video, instant messaging and online collaboration. With customers in more than 50 countries and nearly two decades of experience, Sonus offers a complete portfolio of hardware-based and virtualized Session Border Controllers (SBCs), Diameter Signaling Controllers (DSCs), policy/routing servers and media and signaling gateways. For more information, visit [www.sonus.net](http://www.sonus.net) or call 1-855-GO-SONUS.

### Important Information Regarding Forward-Looking Statements

The information in this release 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 release, including statements in the sections "Quotes" and "Outlook," statements regarding our future results of operations and financial position, business strategy, plans and objectives of management for future operations and plans for future product development and manufacturing, and statements regarding the impact of the PT transaction on Sonus' financial results, business performance and product offerings, are forward-looking statements. Without limiting the foregoing, the words "anticipates", "believes", "could", "estimates", "expects", "expectations", "intends", "may", "plans", "seeks", "projects" 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. Our actual results could differ materially from those anticipated

in these forward-looking statements as a result of various factors, including, but not limited to, the timing of our recognition of revenues; economic conditions; our ability to recruit and retain key personnel; difficulties supporting our strategic focus on channel sales; difficulties retaining and expanding our customer base; difficulties leveraging market opportunities; the impact of restructuring activities; our ability to realize benefits from the NET and PT acquisitions; the effects of disruption from the PT transaction, making it more difficult to maintain relationships with employees, customers, business partners or government entities; the success implementing the integration strategies of NET and PT; litigation; actions taken by significant stockholders; difficulties providing solutions that meet the needs of customers; market acceptance of our products and services; rapid technological and market change; our ability to protect our intellectual property rights; our ability to maintain partner, reseller, distribution and vendor support and supply relationships; higher risks in international operations and markets; the impact of increased competition; currency fluctuations; changes in the market price of our common stock; and/or failure or circumvention of our controls and procedures. 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, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations", Part I, Item 3 "Quantitative and Qualitative Disclosures About Market Risk," and Part II, Item 1A "Risk Factors" in the Company's most recent Quarterly Report on Form 10-Q. Any forward-looking statement made by us in this release speaks only as of the date of this release. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

Sonus is a registered trademark of Sonus Networks, Inc. All other Company and product names may be trademarks of the respective companies with which they are associated.

### **Discussion of Non-GAAP Financial Measures**

Sonus management uses a number of different financial measures, both GAAP and non-GAAP, in analyzing and assessing the overall performance of the business, making operating decisions, planning and forecasting future periods, and determining payments under compensation programs. Our annual financial plan is prepared both on a GAAP and non-GAAP basis, and the non-GAAP annual financial plan is approved by our board of directors. Continuous budgeting and forecasting for revenue and expenses are conducted on a non-GAAP basis (in addition to GAAP) and actual results on a non-GAAP basis are assessed against the annual financial plan. We consider the use of non-GAAP financial measures helpful in assessing the core performance of our continuing operations and liquidity, and when planning and forecasting future periods. By continuing operations we mean the ongoing results of the business excluding certain costs, including, but not limited to: cost of product revenue related to the fair value write-up of acquired inventory, stock-based compensation, amortization of intangible assets, impairment of intangible assets, acquisition-related costs, divestiture costs, restructuring and other income arising from the settlement of litigation related to prepaid royalties for software licenses. We also consider the use of non-GAAP earnings per share helpful in assessing the performance of the continuing operations of our business. While our management uses these non-GAAP financial measures as a tool to enhance their understanding of certain aspects of our financial performance, our management does not consider these measures to be a substitute for, or superior to, GAAP measures. In addition, our presentations of these measures may not be comparable to similarly titled measures used by other companies. These non-GAAP financial measures should not be considered alternatives for, or in isolation from, the financial information prepared and presented in accordance with GAAP.

Investors are cautioned that there are material limitations associated with the use of non-GAAP financial measures as an analytical tool. In particular, many of the adjustments to Sonus' financial measures reflect the exclusion of items that are recurring and will be reflected in our financial results for the foreseeable future.

As part of the assessment of the assets acquired and liabilities assumed in connection with the PT acquisition, we were required to increase the aggregate fair value of acquired inventory by \$1.8 million. The acquired inventory is being charged to cost of product revenue as it is sold to end customers. We believe that excluding the incremental cost of product revenue resulting from the fair value write-up of this acquired inventory facilitates the comparison of our operating results to our historical results and to other companies in our industry.

Stock-based compensation is different from other forms of compensation, as it is a non-cash expense. For example, a cash salary generally has a fixed and unvarying cash cost. In contrast, the expense associated with an equity-based award is generally unrelated to the amount of cash ultimately received by the employee, and the cost to us is based on a stock-based compensation valuation methodology and underlying assumptions that may vary over time. We believe that excluding non-cash stock-based compensation expense from our operating results facilitates the ability of readers of our financial statements to compare our financial results to our historical operating results and to other companies in our industry.

We exclude the amortization of acquired intangible assets from non-GAAP expense and income measures. These amortization amounts are inconsistent in frequency and amount and are significantly impacted by the timing and size of acquisitions. Although we exclude amortization of acquired intangible assets from our non-GAAP expenses, we believe that it is important for

investors to understand that intangible assets contribute to revenue generation. We believe that excluding the non-cash amortization of intangible assets facilitates the comparison of our financial results to our historical operating results and to other companies in our industry as if the acquired intangible assets had been developed internally rather than acquired.

In the second quarter of 2013 we recorded \$0.6 million of expense for the write-off of an intellectual property intangible asset which we determined was impaired as of June 28, 2013. We believe that excluding the impairment of intangible assets facilitates the comparison of our financial results to our historical operating results and to other companies in our industry.

We consider certain transition, integration and other acquisition-related costs to be unpredictable and dependent on a significant number of factors that may be outside of our control. We do not consider these acquisition-related costs to be related to the continuing operations of the acquired business or the Company. In addition, the size, complexity and/or volume of an acquisition, which often drives the magnitude of acquisition-related costs, may not be indicative of such future costs. We believe that excluding acquisition-related costs facilitates the comparison of our financial results to our historical operating results and to other companies in our industry.

On June 20, 2014, we sold the Multi-Protocol Server (MPS) business that we had acquired in connection with the acquisition of PT. We incurred \$0.4 million of transaction costs related to this divestiture. We do not consider these divestiture costs to be related to our continuing operations. We believe that excluding divestiture costs facilitates the comparison of our financial results to our historical operating results and to other companies in our industry.

We have recorded restructuring expense to streamline operations and reduce operating costs by closing and consolidating certain facilities and reducing our worldwide workforce. We believe that excluding restructuring expense facilitates the comparison of our financial results to our historical operating results and to other companies in our industry.

In the first quarter of 2014, we recorded \$2.25 million of other income related to the settlement of a litigation matter in which we recovered a portion of our losses related to the impairment of certain prepaid royalties for software licenses which we had written off in fiscal 2012. We believe that excluding the other income arising from this settlement facilitates the comparison of our results to our historical results and other companies in our industry.

We believe that providing non-GAAP information to investors, in addition to the GAAP presentation, will allow investors to view the financial results in the way management views the operating results. We further believe that providing this information helps investors to better understand our financial performance and evaluate the efficacy of the methodology and information used by our management to evaluate and measure such performance.

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

|                       | Three months ended |                   |                  |
|-----------------------|--------------------|-------------------|------------------|
|                       | June 27,<br>2014   | March 28,<br>2014 | June 28,<br>2013 |
| Revenue:              |                    |                   |                  |
| Product               | \$ 45,845          | \$ 45,140         | \$ 42,939        |
| Service               | 29,725             | 25,602            | 26,254           |
| Total revenue         | <u>75,570</u>      | <u>70,742</u>     | <u>69,193</u>    |
| Cost of revenue:      |                    |                   |                  |
| Product               | 16,811             | 13,663            | 13,534           |
| Service               | 11,471             | 10,656            | 11,651           |
| Total cost of revenue | <u>28,282</u>      | <u>24,319</u>     | <u>25,185</u>    |
| Gross profit          | <u>47,288</u>      | <u>46,423</u>     | <u>44,008</u>    |
| Gross margin:         |                    |                   |                  |
| Product               | 63.3%              | 69.7%             | 68.5%            |
| Service               | 61.4%              | 58.4%             | 55.6%            |
| Total gross margin    | 62.6%              | 65.6%             | 63.6%            |

|  |                   |                   |                   |
|--|-------------------|-------------------|-------------------|
| Operating expenses:                    |                   |                   |                   |
| Research and development               | 20,921            | 18,972            | 18,019            |
| Sales and marketing                    | 18,782            | 19,581            | 19,191            |
| General and administrative             | 11,995            | 11,186            | 9,733             |
| Acquisition-related                    | -                 | 1,306             | -                 |
| Restructuring                          | 391               | 1,169             | 1,698             |
| Total operating expenses               | <u>52,089</u>     | <u>52,214</u>     | <u>48,641</u>     |
| Loss from operations                   | (4,801)           | (5,791)           | (4,633)           |
| Interest income, net                   | 50                | 35                | 90                |
| Other income (expense), net            | <u>(10)</u>       | <u>2,335</u>      | <u>3</u>          |
| Loss before income taxes               | (4,761)           | (3,421)           | (4,540)           |
| Income tax provision                   | <u>(736)</u>      | <u>(532)</u>      | <u>(330)</u>      |
| Net loss                               | <u>\$ (5,497)</u> | <u>\$ (3,953)</u> | <u>\$ (4,870)</u> |
| Loss per share:                        |                   |                   |                   |
| Basic                                  | \$ (0.02)         | \$ (0.01)         | \$ (0.02)         |
| Diluted                                | \$ (0.02)         | \$ (0.01)         | \$ (0.02)         |
| Shares used to compute loss per share: |                   |                   |                   |
| Basic                                  | 247,120           | 265,400           | 282,389           |
| Diluted                                | 247,120           | 265,400           | 282,389           |

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

|                            | <u>Six months ended</u>  |                          |
|----------------------------|--------------------------|--------------------------|
|                            | <u>June 27,<br/>2014</u> | <u>June 28,<br/>2013</u> |
| Revenue:                   |                          |                          |
| Product                    | \$ 90,985                | \$ 80,735                |
| Service                    | <u>55,327</u>            | <u>51,746</u>            |
| Total revenue              | <u>146,312</u>           | <u>132,481</u>           |
| Cost of revenue:           |                          |                          |
| Product                    | 30,474                   | 27,429                   |
| Service                    | <u>22,127</u>            | <u>23,242</u>            |
| Total cost of revenue      | <u>52,601</u>            | <u>50,671</u>            |
| Gross profit               | <u>93,711</u>            | <u>81,810</u>            |
| Gross margin:              |                          |                          |
| Product                    | 66.5%                    | 66.0%                    |
| Service                    | 60.0%                    | 55.1%                    |
| Total gross margin         | 64.0%                    | 61.8%                    |
| Operating expenses:        |                          |                          |
| Research and development   | 39,893                   | 35,520                   |
| Sales and marketing        | 38,363                   | 40,305                   |
| General and administrative | 23,181                   | 20,443                   |
| Acquisition-related        | 1,306                    | -                        |

|  |                   |                    |
|--|-------------------|--------------------|
| Restructuring                          | 1,560             | 3,647              |
| Total operating expenses               | <u>104,303</u>    | <u>99,915</u>      |
| Loss from operations                   | (10,592)          | (18,105)           |
| Interest income, net                   | 85                | 228                |
| Other income, net                      | <u>2,325</u>      | <u>3</u>           |
| Loss before income taxes               | (8,182)           | (17,874)           |
| Income tax provision                   | <u>(1,268)</u>    | <u>(744)</u>       |
| Net loss                               | <u>\$ (9,450)</u> | <u>\$ (18,618)</u> |
| Loss per share                         |                   |                    |
| Basic                                  | \$ (0.04)         | \$ (0.07)          |
| Diluted                                | \$ (0.04)         | \$ (0.07)          |
| Shares used to compute loss per share: |                   |                    |
| Basic                                  | 257,026           | 281,973            |
| Diluted                                | 257,026           | 281,973            |

SONUS NETWORKS, INC.  
Condensed Consolidated Balance Sheets  
(in thousands)  
(unaudited)

|   | June 27,<br>2014  | December 31,<br>2013 |
|---|-------------------|----------------------|
| <b>Assets</b>                               |                   |                      |
| Current assets:                             |                   |                      |
| Cash and cash equivalents                   | \$ 61,295         | \$ 72,423            |
| Marketable securities                       | 56,118            | 138,882              |
| Accounts receivable, net                    | 60,035            | 64,463               |
| Inventory                                   | 23,509            | 21,793               |
| Deferred income taxes                       | 1,173             | 656                  |
| Other current assets                        | <u>14,800</u>     | <u>15,073</u>        |
| Total current assets                        | 216,930           | 313,290              |
| Property and equipment, net                 | 20,629            | 19,102               |
| Intangible assets, net                      | 24,984            | 10,091               |
| Goodwill                                    | 39,207            | 32,379               |
| Investments                                 | 32,119            | 34,364               |
| Deferred income taxes                       | 1,210             | 2,121                |
| Other assets                                | <u>4,022</u>      | <u>6,137</u>         |
|   | <u>\$ 339,101</u> | <u>\$ 417,484</u>    |
| <b>Liabilities and stockholders' equity</b> |                   |                      |
| Current liabilities:                        |                   |                      |
| Accounts payable                            | \$ 10,397         | \$ 11,164            |
| Accrued expenses                            | 28,857            | 34,026               |
| Current portion of deferred revenue         | 40,638            | 41,169               |
| Convertible subordinated note               | 2,380             | 2,380                |
| Current portion of long-term liabilities    | <u>775</u>        | <u>672</u>           |
| Total current liabilities                   | 83,047            | 89,411               |
| Deferred revenue                            | 10,206            | 10,528               |

|                             |               |                |
|-----------------------------|---------------|----------------|
| Deferred income taxes       | 1,352         | 922            |
| Other long-term liabilities | 3,994         | 4,371          |
| Total liabilities           | <u>98,599</u> | <u>105,232</u> |

Commitments and contingencies

Stockholders equity:

|  |                   |                   |
|--|-------------------|-------------------|
| Common stock                           | 246               | 266               |
| Additional paid-in capital             | 1,218,173         | 1,280,442         |
| Accumulated deficit                    | (983,942)         | (974,492)         |
| Accumulated other comprehensive income | 6,025             | 6,036             |
| Total stockholders' equity             | <u>240,502</u>    | <u>312,252</u>    |
|  | <u>\$ 339,101</u> | <u>\$ 417,484</u> |

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

|  | Six months ended |                  |
|--|------------------|------------------|
|  | June 27,<br>2014 | June 28,<br>2013 |
| Cash flows from operating activities:  |                  |                  |
| Net loss   | \$ (9,450)       | \$ (18,618)      |
| Adjustments to reconcile net loss to cash flows provided by operating activities:                  |                  |                  |
| Depreciation and amortization of property and equipment  | 5,899            | 6,743            |
| Amortization of intangible assets  | 2,207            | 2,373            |
| Impairment of intangible assets  | -                | 600              |
| Stock-based compensation   | 12,712           | 8,764            |
| Loss on disposal of property and equipment   | 61               | 21               |
| Deferred income taxes  | 519              | 367              |
| Changes in operating assets and liabilities:   |                  |                  |
| Accounts receivable  | 8,254            | 28,733           |
| Inventory  | 4,386            | 1,958            |
| Other operating assets   | 2,698            | 2,402            |
| Accounts payable   | (620)            | (5,291)          |
| Accrued expenses and other long-term liabilities   | (4,635)          | (1,932)          |
| Deferred revenue   | (1,777)          | 2,809            |
| Net cash provided by operating activities  | <u>20,254</u>    | <u>28,929</u>    |
| Cash flows from investing activities:  |                  |                  |
| Purchases of property and equipment  | (6,271)          | (3,032)          |
| Business acquisition, net of cash acquired   | (34,010)         | -                |
| Sale of business   | 2,000            | -                |
| Purchases of marketable securities   | (47,880)         | (180,306)        |
| Sale/maturities of marketable securities   | 134,127          | 147,944          |
| Net cash provided by (used in) investing activities  | <u>47,966</u>    | <u>(35,394)</u>  |
| Cash flows from financing activities:  |                  |                  |
| Proceeds from sale of common stock in connection with employee stock purchase plan                 | 1,197            | 865              |
| Proceeds from exercise of stock options  | 4,541            | 1,337            |
| Payment of tax withholding obligations related to net share settlements of restricted stock awards | (1,571)          | (418)            |
| Repurchase of common stock   | (83,518)         | -                |
| Principal payments of capital lease obligations  | (44)             | (62)             |



|  |                  |                  |
|--|------------------|------------------|
| Net cash provided by (used in) financing activities          | <u>(79,395)</u>  | <u>1,722</u>     |
| Effect of exchange rate changes on cash and cash equivalents | <u>47</u>        | <u>(583)</u>     |
| Net decrease in cash and cash equivalents                    | (11,128)         | (5,326)          |
| Cash and cash equivalents, beginning of year                 | <u>72,423</u>    | <u>88,004</u>    |
| Cash and cash equivalents, end of period                     | <u>\$ 61,295</u> | <u>\$ 82,678</u> |

SONUS NETWORKS, INC.  
Supplemental Information  
(In thousands)  
(unaudited)

The following tables provide the details of the fair value write-up of acquired inventory, stock-based compensation, amortization of intangible assets, impairment of intangible assets, divestiture costs and a litigation settlement related to prepaid licenses included in the Company's Condensed Consolidated Statements of Operations and the line items in which these amounts are reported.

|  | <u>Three months ended</u> |                           |                          |
|--|---------------------------|---------------------------|--------------------------|
|  | <u>June 27,<br/>2014</u>  | <u>March 28,<br/>2013</u> | <u>June 28,<br/>2013</u> |
| <b>Fair value write-up of acquired inventory</b> |                           |                           |                          |
| Cost of revenue - product                        | <u>\$ 803</u>             | <u>\$ 615</u>             | <u>\$ -</u>              |
| <b>Stock-based compensation</b>                  |                           |                           |                          |
| Cost of revenue - product                        | \$ 104                    | \$ 79                     | \$ 30                    |
| Cost of revenue - service                        | <u>412</u>                | <u>279</u>                | <u>252</u>               |
| Cost of revenue                                  | <u>516</u>                | <u>358</u>                | <u>282</u>               |
| Research and development expense                 | 1,749                     | 1,313                     | 820                      |
| Sales and marketing expense                      | 1,303                     | 1,249                     | 1,219                    |
| General and administrative expense               | <u>3,370</u>              | <u>2,854</u>              | <u>2,219</u>             |
| Operating expense                                | <u>6,422</u>              | <u>5,416</u>              | <u>4,258</u>             |
| Total stock-based compensation                   | <u>\$ 6,938</u>           | <u>\$ 5,774</u>           | <u>\$ 4,540</u>          |
| <b>Amortization of intangible assets</b>         |                           |                           |                          |
| Cost of revenue - product                        | <u>\$ 673</u>             | <u>\$ 631</u>             | <u>\$ 560</u>            |
| Research and development                         | -                         | -                         | 100                      |
| Sales and marketing                              | <u>505</u>                | <u>398</u>                | <u>-</u>                 |
| Operating expense                                | <u>505</u>                | <u>398</u>                | <u>100</u>               |
| Total amortization of intangible assets          | <u>\$ 1,178</u>           | <u>\$ 1,029</u>           | <u>\$ 660</u>            |
| <b>Impairment of intangible assets</b>           |                           |                           |                          |
| Research and development                         | <u>\$ -</u>               | <u>\$ -</u>               | <u>\$ 600</u>            |
| <b>Divestiture costs</b>                         |                           |                           |                          |
| General and administrative                       | <u>\$ 405</u>             | <u>\$ -</u>               | <u>\$ -</u>              |

**Litigation settlement - prepaid licenses**

|                   |             |                 |             |
|-------------------|-------------|-----------------|-------------|
| Other income, net | <u>\$ -</u> | <u>\$ 2,250</u> | <u>\$ -</u> |
|-------------------|-------------|-----------------|-------------|

SONUS NETWORKS, INC.  
Supplemental Information  
(In thousands)  
(unaudited)

The following tables provide the details of the fair value write-up of acquired inventory, stock-based compensation, amortization of intangible assets, impairment of intangible assets, divestiture costs and a litigation settlement related to prepaid licenses included in the Company's Condensed Consolidated Statements of Operations and the line items in which these amounts are reported.

|  | Six months ended |                  |
|--|------------------|------------------|
|  | June 27,<br>2014 | June 28,<br>2013 |
| <b>Fair value write-up of acquired inventory</b> |                  |                  |
| Cost of revenue - product                        | <u>\$ 1,418</u>  | <u>\$ -</u>      |
| <b>Stock-based compensation</b>                  |                  |                  |
| Cost of revenue - product                        | \$ 183           | \$ 82            |
| Cost of revenue - service                        | 691              | 462              |
| Cost of revenue                                  | <u>874</u>       | <u>544</u>       |
| Research and development expense                 | 3,062            | 1,499            |
| Sales and marketing expense                      | 2,552            | 2,318            |
| General and administrative expense               | 6,224            | 4,403            |
| Operating expense                                | <u>11,838</u>    | <u>8,220</u>     |
| Total stock-based compensation                   | <u>\$ 12,712</u> | <u>\$ 8,764</u>  |
| <b>Amortization of intangible assets</b>         |                  |                  |
| Cost of revenue - product                        | <u>\$ 1,304</u>  | <u>\$ 1,121</u>  |
| Research and development                         | -                | 200              |
| Sales and marketing                              | 903              | 1,052            |
| Operating expense                                | <u>903</u>       | <u>1,252</u>     |
| Total amortization of intangible assets          | <u>\$ 2,207</u>  | <u>\$ 2,373</u>  |
| <b>Impairment of intangible assets</b>           |                  |                  |
| Research and development                         | <u>\$ -</u>      | <u>\$ 600</u>    |
| <b>Divestiture costs</b>                         |                  |                  |
| General and administrative                       | <u>\$ 405</u>    | <u>\$ -</u>      |
| <b>Litigation settlement - prepaid licenses</b>  |                  |                  |
| Other income, net                                | <u>\$ 2,250</u>  | <u>\$ -</u>      |

SONUS NETWORKS, INC.  
Reconciliation of Non-GAAP and GAAP Financial Measures - Historical  
(in thousands, except percentages and per share amounts)  
(unaudited)

|  | Three months ended |                   |                  |
|--|--------------------|-------------------|------------------|
|  | June 27,<br>2014   | March 28,<br>2014 | June 28,<br>2013 |
| <b>GAAP gross margin - product</b>                 | 63.3%              | 69.7%             | 68.5%            |
| Stock-based compensation expense                   | 0.2%               | 0.2%              | 0.1%             |
| Amortization of intangible assets                  | 1.5%               | 1.4%              | 1.3%             |
| Fair value write-up of acquired inventory          | 1.8%               | 1.4%              | 0.0%             |
| <b>Non-GAAP gross margin - product</b>             | <u>66.8%</u>       | <u>72.7%</u>      | <u>69.9%</u>     |
| <b>GAAP gross margin - service</b>                 | 61.4%              | 58.4%             | 55.6%            |
| Stock-based compensation expense                   | 1.4%               | 1.1%              | 1.0%             |
| <b>Non-GAAP gross margin - service</b>             | <u>62.8%</u>       | <u>59.5%</u>      | <u>56.6%</u>     |
| <b>GAAP total gross margin</b>                     | 62.6%              | 65.6%             | 63.6%            |
| Stock-based compensation expense                   | 0.7%               | 0.5%              | 0.4%             |
| Amortization of intangible assets                  | 0.9%               | 0.9%              | 0.8%             |
| Fair value write-up of acquired inventory          | 1.0%               | 0.9%              | 0.0%             |
| <b>Non-GAAP total gross margin</b>                 | <u>65.2%</u>       | <u>67.9%</u>      | <u>64.8%</u>     |
| <b>GAAP total gross profit</b>                     | \$ 47,288          | \$ 46,423         | \$ 44,008        |
| Stock-based compensation expense                   | 516                | 358               | 282              |
| Amortization of intangible assets                  | 673                | 631               | 560              |
| Fair value write-up of acquired inventory          | 803                | 615               | -                |
| <b>Non-GAAP total gross profit</b>                 | <u>\$ 49,280</u>   | <u>\$ 48,027</u>  | <u>\$ 44,850</u> |
| <b>GAAP research and development expense</b>       | \$ 20,921          | \$ 18,972         | \$ 18,019        |
| Stock-based compensation expense                   | (1,749)            | (1,313)           | (820)            |
| Amortization of intangible assets                  | -                  | -                 | (100)            |
| Impairment of intangible assets                    | -                  | -                 | (600)            |
| <b>Non-GAAP research and development expense</b>   | <u>\$ 19,172</u>   | <u>\$ 17,659</u>  | <u>\$ 16,499</u> |
| <b>GAAP sales and marketing expense</b>            | \$ 18,782          | \$ 19,581         | \$ 19,191        |
| Stock-based compensation expense                   | (1,303)            | (1,249)           | (1,219)          |
| Amortization of intangible assets                  | (505)              | (398)             | (526)            |
| <b>Non-GAAP sales and marketing expense</b>        | <u>\$ 16,974</u>   | <u>\$ 17,934</u>  | <u>\$ 17,446</u> |
| <b>GAAP general and administrative expense</b>     | \$ 11,995          | \$ 11,186         | \$ 9,733         |
| Stock-based compensation expense                   | (3,370)            | (2,854)           | (2,219)          |
| Divestiture costs                                  | (405)              | -                 | -                |
| <b>Non-GAAP general and administrative expense</b> | <u>\$ 8,220</u>    | <u>\$ 8,332</u>   | <u>\$ 7,514</u>  |
| <b>GAAP operating expenses</b>                     | \$ 52,089          | \$ 52,214         | \$ 48,641        |
| Stock-based compensation expense                   | (6,422)            | (5,416)           | (4,258)          |
| Amortization of intangible assets                  | (505)              | (398)             | (626)            |
| Impairment of intangible assets                    | -                  | -                 | (600)            |
| Divestiture costs                                  | (405)              | -                 | -                |
| Acquisition-related expense                        | -                  | (1,306)           | -                |
| Restructuring                                      | (391)              | (1,169)           | (1,698)          |
| <b>Non-GAAP operating expenses</b>                 | <u>\$ 44,366</u>   | <u>\$ 43,925</u>  | <u>\$ 41,459</u> |

|  |                 |                 |                 |
|--|-----------------|-----------------|-----------------|
| <b>GAAP loss from operations</b>   | \$ (4,801)      | \$ (5,791)      | \$ (4,633)      |
| Fair value write-up of acquired inventory                                    | 803             | 615             | -               |
| Stock-based compensation expense   | 6,938           | 5,774           | 4,540           |
| Amortization of intangible assets  | 1,178           | 1,029           | 1,186           |
| Impairment of intangible assets  | -               | -               | 600             |
| Divestiture costs  | 405             | -               | -               |
| Acquisition-related expense  | -               | 1,306           | -               |
| Restructuring  | 391             | 1,169           | 1,698           |
| <b>Non-GAAP income from operations</b>                                       | <u>\$ 4,914</u> | <u>\$ 4,102</u> | <u>\$ 3,391</u> |
| <b>GAAP Other income (expense), net</b>                                      | \$ (10)         | \$ 2,335        | \$ 3            |
| Litigation settlement - prepaid licenses                                     | -               | (2,250)         | -               |
| <b>Non-GAAP Other income (expense), net</b>                                  | <u>\$ (10)</u>  | <u>\$ 85</u>    | <u>\$ 3</u>     |
| <b>GAAP net loss</b>   | \$ (5,497)      | \$ (3,953)      | \$ (4,870)      |
| Fair value write-up of acquired inventory                                    | 803             | 615             | -               |
| Stock-based compensation expense   | 6,938           | 5,774           | 4,540           |
| Amortization of intangible assets  | 1,178           | 1,029           | 1,186           |
| Impairment of intangible assets  | -               | -               | 600             |
| Divestiture costs  | 405             | -               | -               |
| Acquisition-related expense  | -               | 1,306           | -               |
| Restructuring  | 391             | 1,169           | 1,698           |
| Litigation settlement - prepaid licenses                                     | -               | (2,250)         | -               |
| <b>Non-GAAP net income</b>   | <u>\$ 4,218</u> | <u>\$ 3,690</u> | <u>\$ 3,154</u> |
| <b>Diluted earnings per share or (loss) per share</b>                        |                 |                 |                 |
| GAAP   | \$ (0.02)       | \$ (0.01)       | \$ (0.02)       |
| Non-GAAP   | \$ 0.02         | \$ 0.01         | \$ 0.01         |
| <b>Shares used to compute diluted earnings per share or (loss) per share</b> |                 |                 |                 |
| <b>GAAP</b> shares used to compute loss per share                            | 247,120         | 265,400         | 282,389         |
| <b>Non-GAAP</b> shares used to compute diluted earnings per share            | 250,154         | 269,031         | 284,298         |

SONUS NETWORKS, INC.  
Reconciliation of Non-GAAP and GAAP Financial Measures - Historical  
(in thousands, except percentages and per share amounts)  
(unaudited)

|   | <u>Six months ended</u>  |                          |
|---|--------------------------|--------------------------|
|   | <u>June 27,<br/>2014</u> | <u>June 28,<br/>2013</u> |
| <b>GAAP gross margin - product</b>        | 66.5%                    | 66.0%                    |
| Stock-based compensation expense          | 0.2%                     | 0.1%                     |
| Amortization of intangible assets         | 1.4%                     | 1.4%                     |
| Fair value write-up of acquired inventory | 1.6%                     | 0.0%                     |
| <b>Non-GAAP gross margin - product</b>    | <u>69.7%</u>             | <u>67.5%</u>             |
| <b>GAAP gross margin - service</b>        | 60.0%                    | 55.1%                    |
| Stock-based compensation expense          | 1.3%                     | 0.9%                     |
| <b>Non-GAAP gross margin - service</b>    | <u>61.3%</u>             | <u>56.0%</u>             |
| <b>GAAP total gross margin</b>            | 64.0%                    | 61.8%                    |
| Stock-based compensation expense          | 0.6%                     | 0.4%                     |
| Amortization of intangible assets         | 0.9%                     | 0.8%                     |

|  |                  |                   |
|--|------------------|-------------------|
| Fair value write-up of acquired inventory          | 1.0%             | 0.0%              |
| <b>Non-GAAP total gross margin</b>                 | <u>66.5%</u>     | <u>63.0%</u>      |
| <b>GAAP total gross profit</b>                     | \$ 93,711        | \$ 81,810         |
| Stock-based compensation expense                   | 874              | 544               |
| Amortization of intangible assets                  | 1,304            | 1,121             |
| Fair value write-up of acquired inventory          | 1,418            | -                 |
| <b>Non-GAAP total gross profit</b>                 | <u>\$ 97,307</u> | <u>\$ 83,475</u>  |
| <b>GAAP research and development expense</b>       | \$ 39,893        | \$ 35,520         |
| Stock-based compensation expense                   | (3,062)          | (1,499)           |
| Amortization of intangible assets                  | -                | (200)             |
| Impairment of intangible assets                    | -                | (600)             |
| <b>Non-GAAP research and development expense</b>   | <u>\$ 36,831</u> | <u>\$ 33,221</u>  |
| <b>GAAP sales and marketing expense</b>            | \$ 38,363        | \$ 40,305         |
| Stock-based compensation expense                   | (2,552)          | (2,318)           |
| Amortization of intangible assets                  | (903)            | (1,052)           |
| <b>Non-GAAP sales and marketing expense</b>        | <u>\$ 34,908</u> | <u>\$ 36,935</u>  |
| <b>GAAP general and administrative expense</b>     | \$ 23,181        | \$ 20,443         |
| Stock-based compensation expense                   | (6,224)          | (4,403)           |
| Divestiture costs                                  | (405)            | -                 |
| <b>Non-GAAP general and administrative expense</b> | <u>\$ 16,552</u> | <u>\$ 16,040</u>  |
| <b>GAAP operating expenses</b>                     | \$104,303        | \$ 99,915         |
| Stock-based compensation expense                   | (11,838)         | (8,220)           |
| Amortization of intangible assets                  | (903)            | (1,252)           |
| Impairment of intangible assets                    | -                | (600)             |
| Divestiture costs                                  | (405)            | -                 |
| Acquisition-related expense                        | (1,306)          | -                 |
| Restructuring                                      | (1,560)          | (3,647)           |
| <b>Non-GAAP operating expenses</b>                 | <u>\$ 88,291</u> | <u>\$ 86,196</u>  |
| <b>GAAP loss from operations</b>                   | \$ (10,592)      | \$ (18,105)       |
| Fair value write-up of acquired inventory          | 1,418            | -                 |
| Stock-based compensation expense                   | 12,712           | 8,764             |
| Amortization of intangible assets                  | 2,207            | 2,373             |
| Impairment of intangible assets                    | -                | 600               |
| Divestiture costs                                  | 405              | -                 |
| Acquisition-related expense                        | 1,306            | -                 |
| Restructuring                                      | 1,560            | 3,647             |
| <b>Non-GAAP income (loss) from operations</b>      | <u>\$ 9,016</u>  | <u>\$ (2,721)</u> |
| <b>GAAP Other income, net</b>                      | \$ 2,325         | \$ -              |
| Litigation settlement - prepaid licenses           | (2,250)          | -                 |
| <b>Non-GAAP Other income, net</b>                  | <u>\$ 75</u>     | <u>\$ -</u>       |
| <b>GAAP net loss</b>                               | \$ (9,450)       | \$ (18,618)       |
| Fair value write-up of acquired inventory          | 1,418            | -                 |
| Stock-based compensation expense                   | 12,712           | 8,764             |
| Amortization of intangible assets                  | 2,207            | 2,373             |
| Impairment of intangible assets                    | -                | 600               |
| Divestiture costs                                  | 405              | -                 |
| Acquisition-related expense                        | 1,306            | -                 |
| Restructuring                                      | 1,560            | 3,647             |
| Litigation settlement - prepaid licenses           | (2,250)          | -                 |

|  |                 |                   |
|--|-----------------|-------------------|
| <b>Non-GAAP net income (loss)</b>  | <u>\$ 7,908</u> | <u>\$ (3,234)</u> |
| <b>Diluted earnings per share or (loss) per share</b>                        |                 |                   |
| GAAP   | \$ (0.04)       | \$ (0.07)         |
| Non-GAAP   | \$ 0.03         | \$ (0.01)         |
| <b>Shares used to compute diluted earnings per share or (loss) per share</b> |                 |                   |
| <b>GAAP</b> shares used to compute loss per share                            | 257,026         | 281,973           |
| <b>Non-GAAP</b> shares used to compute diluted earnings or (loss) per share  | 260,353         | 281,973           |

SONUS NETWORKS, INC.  
Reconciliation of Non-GAAP and GAAP Financial Measures - Outlook  
(in millions, except percentages and per share amounts)  
(unaudited)

|                                   | <u>Three months ended September 26, 2014</u> |                |
|-----------------------------------|--|----------------|
|                                   | <u>Range</u>                                 |                |
| <b>Revenue</b>                    | <u>\$ 70</u>                                 | <u>\$ 73</u>   |
| <b>Gross margin</b>               |  |                |
| GAAP outlook                      | 63.0%  | 64.1%          |
| Fair value write-up of inventory  | 0.3%   | 0.3%           |
| Stock-based compensation          | 0.7%   | 0.7%           |
| Amortization of intangible assets | 1.0%   | 0.9%           |
| Non-GAAP outlook                  | <u>65.0%</u>                                 | <u>66.0%</u>   |
| <b>Operating expenses</b>         |  |                |
| GAAP outlook                      | \$ 51.1                                      | \$ 52.1        |
| Stock-based compensation          | (6.6)  | (6.6)          |
| Amortization of intangible assets | (0.5)  | (0.5)          |
| Non-GAAP outlook                  | <u>\$ 44.0</u>                               | <u>\$ 45.0</u> |
| <b>Earnings (loss) per share</b>  |  |                |
| GAAP outlook                      | \$ (0.02)                                    | \$ (0.02)      |
| Fair value write-up of inventory  | *  | *              |
| Stock-based compensation expense  | 0.03   | 0.03           |
| Amortization of intangible assets | *  | *              |
| Non-GAAP outlook                  | <u>\$ 0.01</u>                               | <u>\$ 0.01</u> |
|                                   |  |                |
|                                   | <u>Three months ended December 31, 2014</u>  |                |
|                                   | <u>Range</u>                                 |                |
| <b>Revenue</b>                    | <u>\$ 81</u>                                 | <u>\$ 84</u>   |
| <b>Earnings (loss) per share</b>  |  |                |
| GAAP outlook                      | \$ -   | \$ -           |
| Fair value write-up of inventory  | *  | *              |
| Stock-based compensation expense  | 0.03   | 0.03           |
| Amortization of intangible assets | *  | *              |
| Acquisition-related               | *  | *              |
| Non-GAAP outlook                  | <u>\$ 0.03</u>                               | <u>\$ 0.03</u> |

**Year ended December 31, 2014**

|  | Sonus          | PT               | Combined       |
|--|----------------|------------------|----------------|
| <b>Revenue</b>                           | \$ 285         | \$ 15            | \$ 300         |
| <b>Earnings (loss) per share</b>         |                |                  |                |
| GAAP outlook                             | \$ (0.06)      | \$ (0.01)        | \$ (0.07)      |
| Fair value write-up of inventory         | 0.01           | *                | 0.01           |
| Stock-based compensation expense         | 0.11           | *                | 0.11           |
| Amortization of intangible assets        | 0.02           | *                | 0.02           |
| Acquisition-related                      | *              | *                | *              |
| Restructuring                            | 0.01           | *                | 0.01           |
| Litigation settlement - prepaid licenses | (0.01)         | *                | (0.01)         |
| Non-GAAP outlook                         | <u>\$ 0.08</u> | <u>\$ (0.01)</u> | <u>\$ 0.07</u> |

\* Less than \$0.01 impact on earnings per share.

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