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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 29, 2013

- 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

(State or other jurisdiction of
incorporation or organization)

04-3387074

(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 No

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 No

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

Accelerated filer

Non-accelerated filer
(Do not check if a smaller
reporting company)

Smaller reporting company

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

As of April 18, 2013, there were 282,234,785 shares of the registrant's common stock, \$0.001 par value, outstanding.

SONUS NETWORKS, INC.
FORM 10-Q
QUARTER ENDED MARCH 29, 2013
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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 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, except as may be required by law.

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 29, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 74,628	\$ 88,004
Marketable securities	150,588	161,905
Accounts receivable, net of allowance for doubtful accounts of \$161 at March 29, 2013 and \$0 at December 31, 2012	50,723	68,728
Inventory	26,408	25,614
Deferred income taxes	650	686
Other current assets	15,274	15,401
Total current assets	318,271	360,338
Property and equipment, net	21,094	23,767
Intangible assets, net	14,050	15,237
Goodwill	34,081	34,081
Investments	59,224	29,698
Deferred income taxes	973	1,011
Other assets	7,194	7,191
	\$ 454,887	\$ 471,323
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 6,045	\$ 10,643
Accrued expenses	22,667	26,795
Current portion of deferred revenue	39,795	37,094
Current portion of long-term liabilities	678	763
Total current liabilities	69,185	75,295
Deferred revenue	10,561	11,647
Deferred income taxes	432	249
Convertible subordinated note	2,380	2,380
Other long-term liabilities	5,349	5,706
Total liabilities	87,907	95,277
Commitments and contingencies (Note 14)		
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; 600,000,000 shares authorized; 282,231,764 shares issued and outstanding at March 29, 2013; 280,963,298 shares issued and outstanding at December 31, 2012	282	281
Additional paid-in capital	1,326,475	1,321,385
Accumulated deficit	(966,121)	(952,373)
Accumulated other comprehensive income	6,344	6,753
Total stockholders' equity	366,980	376,046
	\$ 454,887	\$ 471,323

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 29, 2013	March 30, 2012
Revenue:		
Product	\$ 37,796	\$ 41,411
Service	25,492	22,928
Total revenue	63,288	64,339
Cost of revenue:		
Product	13,895	9,193
Service	11,591	13,392
Total cost of revenue	25,486	22,585
Gross profit	37,802	41,754
Operating expenses:		
Research and development	17,501	18,387
Sales and marketing	21,114	20,585
General and administrative	10,710	8,979
Restructuring	1,949	—
Total operating expenses	51,274	47,951
Loss from operations	(13,472)	(6,197)
Interest income, net	138	215
Loss before income taxes	(13,334)	(5,982)
Income tax provision	(414)	(456)
Net loss	\$ (13,748)	\$ (6,438)
Loss per share		
Basic	\$ (0.05)	\$ (0.02)
Diluted	\$ (0.05)	\$ (0.02)
Shares used to compute loss per share:		
Basic	281,542	279,487
Diluted	281,542	279,487

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 29, 2013	March 30, 2012
Net loss	\$ (13,748)	\$ (6,438)
Other comprehensive loss, net of tax:		
Foreign currency translation adjustments	(326)	(501)
Unrealized loss on available-for sale marketable securities, net of tax	(83)	(45)
Other comprehensive loss, net of tax	\$ (409)	\$ (546)
Comprehensive loss, net of tax	\$ (14,157)	\$ (6,984)

See notes to the unaudited condensed consolidated financial statements.

SONUS NETWORKS, INC.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Three months ended	
	March 29, 2013	March 30, 2012
Cash flows from operating activities:		
Net loss	\$ (13,748)	\$ (6,438)
Adjustments to reconcile net loss to cash flows provided by (used in) operating activities:		
Depreciation and amortization of property and equipment	3,522	2,900
Amortization of intangible assets	1,187	100
Stock-based compensation	4,224	2,117
Loss on disposal of property and equipment	17	—
Deferred income taxes	183	—
Changes in operating assets and liabilities:		
Accounts receivable	17,472	20,457
Inventory	(837)	(2,867)
Other operating assets	1,515	(9,541)
Accounts payable	(4,637)	(5,204)
Accrued expenses and other long-term liabilities	(4,329)	(4,137)
Deferred revenue	1,739	(906)
Net cash provided by (used in) operating activities	6,308	(3,519)
Cash flows from investing activities:		
Purchases of property and equipment	(1,005)	(2,120)
Purchases of marketable securities	(76,526)	(70,990)
Maturities of marketable securities	57,110	82,851
Net cash (used in) provided by investing activities	(20,421)	9,741
Cash flows from financing activities:		
Proceeds from sale of common stock in connection with employee stock purchase plan	865	993
Proceeds from exercise of stock options	578	39
Payment of tax withholding obligations related to net share settlements of restricted stock awards	(346)	(91)
Principal payments of capital lease obligations	(31)	(33)
Net cash provided by financing activities	1,066	908
Effect of exchange rate changes on cash and cash equivalents	(329)	78
Net (decrease) increase in cash and cash equivalents	(13,376)	7,208
Cash and cash equivalents, beginning of year	88,004	105,451
Cash and cash equivalents, end of period	\$ 74,628	\$ 112,659
Supplemental disclosure of cash flow information:		
Interest paid	\$ 2	\$ 9
Income taxes paid	\$ 555	\$ 636
Income tax refunds received	\$ 3	\$ 4
Supplemental disclosure of non-cash investing activities:		
Capital expenditures incurred, but not yet paid	\$ 186	\$ 777
Property and equipment acquired under capital lease	\$ —	\$ 40

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") was incorporated in 1997 and 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' products include session border controllers, Session Initiation Protocol ("SIP") session management servers, Voice over IP ("VoIP") switches, SIP application servers, multiprotocol signaling gateways and network analytics tools. Sonus' solutions address the need for communications service providers and enterprises 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.

The Company's target customers comprise both communications service providers and enterprises utilizing both direct and indirect sales channels. Customers and prospective customers in the service provider space are traditional and emerging communications 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. The Company collaborates with its customers to identify and develop new, advanced services and applications that can help to reduce costs, improve productivity and generate new revenue.

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. 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, 2012 ("Annual Report") filed with the SEC on March 6, 2013.

On August 24, 2012, the Company completed the acquisition of Network Equipment Technologies, Inc. ("NET"). The financial results of NET are included in the Company's condensed consolidated financial statements for the three months ended March 29, 2013.

Significant Accounting Policies

The Company's significant accounting policies are disclosed in Note 2 to the Consolidated Financial Statements included in the Company's Annual Report. There were no significant changes to the significant accounting policies during the three months ended March 29, 2013.

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, 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.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

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

On March 4, 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-05, *Foreign Currency Matters (Topic 830) - Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity* ("ASU 2013-05"), which indicates that the entire amount of a cumulative translation adjustment ("CTA") related to an entity's investment in a foreign entity should be released when there has been either: (a) a sale of a subsidiary or group of net assets within a foreign entity and the sale represents the substantially complete liquidation of the investment in a foreign entity; (b) the loss of a controlling financial interest in an investment in a foreign entity (i.e., the foreign entity is deconsolidated); or (c) the step acquisition of a foreign entity (i.e., when the accounting for an entity has changed from applying the equity method for an investment in a foreign entity to consolidating the foreign entity). ASU 2013-05 does not change the requirement to release a pro rata portion of the CTA of the foreign entity into earnings for a partial sale of an equity method investment in a foreign entity. ASU 2013-05 is effective for the Company beginning January 1, 2014, although early adoption is permitted. The Company does not expect the adoption of ASU 2013-05 to have a material impact on its consolidated financial statements.

On February 5, 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* ("ASU 2013-02"), which requires entities to disclose changes in accumulated other comprehensive income balances by component (i.e., unrealized gains or losses on available-for-sale securities or foreign-currency items) and significant items reclassified out of accumulated other comprehensive income by component either on the face of the income statement or as a separate footnote to the financial statements. ASU 2013-02 does not change the current requirements for interim financial statement reporting of comprehensive income. ASU 2013-02 became effective for the Company on January 1, 2013. The Company does not have significant items reclassified out of accumulated other comprehensive income and accordingly, the adoption of ASU 2013-02 did not impact the Company's financial statements.

(2) ACQUISITION OF NET

On August 24, 2012 (the "NET Acquisition Date"), the Company acquired all of the outstanding common stock of NET for cash consideration of \$41.5 million, or \$1.35 per share of NET common stock. The acquisition was effected through a merger of a wholly-owned subsidiary of the Company into NET, with NET surviving the merger as a wholly-owned subsidiary of the Company. NET is a provider of networking equipment focused on secure real-time communications for Unified Communications ("UC"), SIP trunking, enterprise mobility and IP-based multi-service networking. The Company acquired NET to enhance its position as an enabler of cloud-based UC. The acquisition of NET expands the Company's portfolio of Session Border Controller ("SBC") solutions for enterprise customers and brings engineering resources, broader channel capability and a broad U.S. federal government installed base to leverage into SIP-enabled platforms.

As of March 29, 2013, the valuation of acquired assets, identifiable intangible assets, uncertain tax liabilities and certain accrued liabilities is preliminary. The Company is in the process of investigating the facts and circumstances existing as of the NET Acquisition Date in order to finalize its valuation. Based on new information gathered about facts and circumstances that existed as of the NET Acquisition Date related to the valuation of certain acquired assets and assumed liabilities, the Company updated its preliminary valuations of assets acquired and liabilities assumed during the three months ended March 29, 2013. The Company recorded a retrospective adjustment as of December 31, 2012 which resulted in a net increase to goodwill of

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

\$0.3 million, a net decrease to other current assets of \$0.2 million and an increase to current liabilities of \$0.1 million in the table below. The adjustments have been retrospectively applied to the December 31, 2012 balance sheet; however, these adjustments had no impact on the statement of operations or the statement of cash flows.

The acquisition was accounted for as a nontaxable business combination and the Company carried over the existing tax basis of the acquired assets and assumed liabilities. The Company concluded that there was insufficient positive evidence to overcome the more objective evidence of cumulative losses and accordingly, a valuation allowance against these assets has been recorded in purchase accounting. The Company intends to elect under Section 338(g) of the Internal Revenue Code to have the transaction treated as an asset acquisition (i.e., a taxable transaction) and therefore the goodwill will be deductible for tax purposes over 15 years.

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

Fair value of consideration transferred:	
Cash, net of cash acquired	\$ 35,508
Fair value of equity awards assumed	892
Fair value of total consideration	<u>\$ 36,400</u>
Fair value of assets acquired and liabilities assumed:	
Marketable securities	\$ 5,359
Deferred income taxes	681
Other current assets	12,269
Property and equipment	4,694
Noncurrent investments	10,167
Intangible assets	16,810
Goodwill	29,018
Other noncurrent assets	1,843
Current liabilities	(9,932)
Debt	(34,208)
Other long-term liabilities	(301)
	<u>\$ 36,400</u>

The valuation of the acquired intangible assets is inherently subjective and relies on significant unobservable inputs. The Company used an income approach to 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).

Pro Forma Results

The following unaudited pro forma information presents the condensed combined results of operations of the Company and NET for the three months ended March 30, 2012 as if the acquisition of NET had been completed on January 1, 2011 with adjustments to give effect to pro forma events that are directly attributable to the acquisition. These pro forma adjustments include a reduction to historical NET revenue for the fair value adjustment related to acquired deferred revenue, an increase in amortization expense for the acquired identifiable intangible assets and decreases in historical NET interest expense and the Company's historical interest income reflecting the extinguishment of certain of NET's debt as a result of the acquisition.

The unaudited pro forma results do not reflect any operating efficiencies or potential cost savings which may result from the consolidation of the operations of the Company and NET. Accordingly, these unaudited pro forma results are presented for illustrative purposes and are not intended to represent or be indicative of the actual results of operations of the combined companies that would have been achieved had the acquisition occurred as of January 1, 2011, nor are they intended to represent or be indicative of future results of operations (in thousands, except per share amount):

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

	Three months ended March 30, 2012
Revenue	\$ 75,514
Net loss	\$ (17,263)
Loss per share	\$ (0.06)

(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 29, 2013	March 30, 2012
Weighted average shares outstanding—basic	281,542	279,487
Potential dilutive common shares	—	—
Weighted average shares outstanding—diluted	281,542	279,487

Options to purchase the Company's common stock and unvested shares of restricted stock aggregating 31.5 million shares for the three months ended March 29, 2013 and 27.6 million shares for the three months ended March 30, 2012 have not been included in the computation of diluted loss per share because their effect would have been antidilutive.

(4) CASH EQUIVALENTS, MARKETABLE SECURITIES AND INVESTMENTS

The Company invests in debt and equity 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 29, 2013 and March 30, 2012, the Company did not sell any of its available-for-sale securities and accordingly, no such gains or losses were realized.

Marketable securities and investments with continuous unrealized losses for one year or greater at March 29, 2013 were nominal. Since the Company 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 29, 2013.

The amortized cost, gross unrealized gains and losses and fair value of the Company's marketable debt and equity securities and investments at March 29, 2013 and December 31, 2012 were comprised of the following (in thousands):

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

	March 29, 2013			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
<i>Cash equivalents</i>	\$ 40,870	\$ —	\$ —	\$ 40,870
<i>Marketable securities</i>				
U.S. government agency notes	\$ 47,686	\$ 25	\$ (2)	\$ 47,709
Foreign government notes	2,000	1	—	2,001
Corporate debt securities	75,093	17	(22)	75,088
Commercial paper	14,883	1	—	14,884
Certificates of deposit	10,900	6	—	10,906
	<u>\$ 150,562</u>	<u>\$ 50</u>	<u>\$ (24)</u>	<u>\$ 150,588</u>
<i>Investments</i>				
U.S. government agency notes	\$ 27,623	\$ 6	\$ (3)	\$ 27,626
Foreign government notes	1,250	—	—	1,250
Corporate debt securities	29,357	17	(25)	29,349
Certificates of deposit	999	—	—	999
	<u>\$ 59,229</u>	<u>\$ 23</u>	<u>\$ (28)</u>	<u>\$ 59,224</u>
December 31, 2012				
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
<i>Cash equivalents</i>	\$ 69,389	\$ —	\$ —	\$ 69,389
<i>Marketable securities</i>				
U.S. government agency notes	\$ 53,646	\$ 22	\$ —	\$ 53,668
Foreign government notes	2,000	1	—	2,001
Corporate debt securities	84,047	34	(5)	84,076
Commercial paper	7,492	5	—	7,497
Certificates of deposit	14,650	13	—	14,663
	<u>\$ 161,835</u>	<u>\$ 75</u>	<u>\$ (5)</u>	<u>\$ 161,905</u>
<i>Investments</i>				
U.S. government agency notes	\$ 19,358	\$ 20	\$ —	\$ 19,378
Corporate debt securities	10,306	20	(6)	10,320
	<u>\$ 29,664</u>	<u>\$ 40</u>	<u>\$ (6)</u>	<u>\$ 29,698</u>

The Company's available-for-sale debt securities that are classified as Investments in the condensed consolidated balance sheet mature 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).

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

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 29, 2013 and December 31, 2012. These financial assets are comprised of the Company's available-for-sale debt and equity securities and reported under the captions Cash and cash equivalents, Marketable securities and Investments in the consolidated balance sheets (in thousands):

	Total carrying value at March 29, 2013	Fair value measurements at March 29, 2013 using:		
		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>Cash equivalents</i>	\$ 40,870	\$ 35,021	\$ 5,849	\$ —
<i>Marketable securities</i>				
U.S. government agency notes	\$ 47,709	\$ —	\$ 47,709	\$ —
Foreign government notes	2,001	—	2,001	—
Corporate debt securities	75,088	—	75,088	—
Commercial paper	14,884	—	14,884	—
Certificates of deposit	10,906	—	10,906	—
	\$ 150,588	\$ —	\$ 150,588	\$ —
<i>Investments</i>				
U.S. government agency notes	\$ 27,626	\$ —	\$ 27,626	\$ —
Foreign government notes	1,250	—	1,250	—
Corporate debt securities	29,349	—	29,349	—
Certificates of deposit	999	—	999	—
	\$ 59,224	\$ —	\$ 59,224	\$ —
	Total carrying value at December 31, 2012	Fair value measurements at December 31, 2012 using:		
		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>Cash equivalents</i>	\$ 69,389	\$ 68,389	\$ 1,000	\$ —
<i>Marketable securities</i>				
U.S. government agency notes	\$ 53,668	\$ —	\$ 53,668	\$ —
Foreign government notes	2,001	—	2,001	—
Corporate debt securities	84,076	—	84,076	—
Commercial paper	7,497	—	7,497	—
Certificates of deposit	14,663	—	14,663	—
	\$ 161,905	\$ —	\$ 161,905	\$ —
<i>Investments</i>				
U.S. government agency notes	\$ 19,378	\$ —	\$ 19,378	\$ —
Corporate debt securities	10,320	—	10,320	—
	\$ 29,698	\$ —	\$ 29,698	\$ —

The Company's marketable securities and investments have been valued on the basis 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

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

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 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):

	<u>March 29, 2013</u>	<u>December 31, 2012</u>
On-hand final assemblies and finished goods inventories	\$ 21,857	\$ 22,009
Deferred cost of goods sold	6,617	5,704
	28,474	27,713
Less current portion	(26,408)	(25,614)
Noncurrent portion (included in Other assets)	\$ 2,066	\$ 2,099

(6) INTANGIBLE ASSETS AND GOODWILL

The Company's intangible assets at March 29, 2013 and December 31, 2012 consist of the following (in thousands):

<u>March 29, 2013</u>	<u>Weighted average amortization period (years)</u>	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net carrying value</u>
Intellectual property	5.00	\$ 2,999	\$ 2,299	\$ 700
Developed technology	5.03	9,080	1,230	7,850
Customer relationships	5.30	6,140	1,228	4,912
Order backlog	0.33	860	860	—
Internal use software	3.00	730	142	588
	4.35	\$ 19,809	\$ 5,759	\$ 14,050

<u>December 31, 2012</u>	<u>Weighted average amortization period (years)</u>	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net carrying value</u>
Intellectual property	5.00	\$ 2,999	\$ 2,199	\$ 800
Developed technology	5.03	9,080	730	8,350
Customer relationships	5.30	6,140	702	5,438
Order backlog	0.33	860	860	—
Internal use software	3.00	730	81	649
	4.35	\$ 19,809	\$ 4,572	\$ 15,237

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

Amortization expense for intangible assets for the three months ended March 29, 2013 and March 30, 2012 was as follows (in thousands):

	Three months ended		Statement of operations classification
	March 29, 2013	March 30, 2012	
Intellectual property	\$ 100	\$ 100	Research and development
Developed technology	500	—	Cost of revenue - product
Customer relationships	526	—	Sales and marketing
Internal use software	61	—	Cost of revenue - product
	<u>\$ 1,187</u>	<u>\$ 100</u>	

Estimated future amortization expense for the Company's intangible assets at March 29, 2013 is as follows (in thousands):

<u>Years ending December 31,</u>	
Remainder of 2013	\$ 3,559
2014	3,634
2015	2,368
2016	1,934
2017	1,900
Thereafter	655
	<u>\$ 14,050</u>

Goodwill is recorded when the consideration for an acquisition exceeds the fair value of net tangible and identifiable intangible assets acquired. Other than the purchase price adjustments discussed in Note 2 and retrospectively recorded as of December 31, 2012, there were no changes to the carrying value of the Company's goodwill in the three months ended March 29, 2013. There were also no changes to the carrying value of the Company's goodwill in the three months ended March 30, 2012.

(7) ACCRUED EXPENSES

Accrued expenses consist of the following (in thousands):

	March 29, 2013	December 31, 2012
Employee compensation and related costs	\$ 12,135	\$ 15,799
Other	10,532	10,996
	<u>\$ 22,667</u>	<u>\$ 26,795</u>

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(8) RESTRUCTURING ACCRUAL

On August 7, 2012, the Company announced that it had committed to a restructuring initiative to streamline operations and reduce operating costs by closing and consolidating certain facilities and reducing its worldwide workforce. In connection with this initiative, the Company recorded \$1.9 million of restructuring expense in the three months ended March 29, 2013, primarily for severance and related costs in connection with reducing the Company's workforce. The Company had recorded \$7.7 million of restructuring expense in the year ended December 31, 2012, of which \$5.2 million remained accrued at December 31, 2012.

The table below summarizes the restructuring accrual activity for the three months ended March 29, 2013 (in thousands):

	Balance at January 1, 2013	Initiatives charged to expense	Cash payments	Foreign exchange	Balance at March 29, 2013
Severance	\$ 1,135	\$ 1,904	\$ (1,378)	(1)	\$ 1,660
Facilities	4,100	45	(444)	—	3,701
Restructuring accrual activity	\$ 5,235	1,949	\$ (1,822)	\$ (1)	\$ 5,361

The Company expects to complete the payments related to severance in the fourth quarter of fiscal 2013 and the payments related to facilities in fiscal 2016. 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 \$2.5 million at March 29, 2013 and \$2.7 million at December 31, 2012.

(9) DEBT

The Company has determined that the estimated fair value of its \$2.4 million of aggregate principal amount of outstanding debt due in 2014 equaled its carrying value at both March 29, 2013 and December 31, 2012. Although the debt can be publicly traded, there have been no trading transactions since 2010 and accordingly, the Company has categorized it in Level 2 within the fair value hierarchy.

(10) STOCK-BASED COMPENSATION PLANS

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 ("restricted stock"), performance-based awards, restricted stock units ("RSUs") 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.

The Company's 2008 Stock Incentive Plan (the "2008 Plan") provides for the award of stock options, SARs, restricted stock, performance-based awards and RSUs to former employees of NET who subsequently became employees of Sonus and Sonus employees hired subsequent to the NET Acquisition Date.

In March 2013, 21 executives of the Company, including Raymond P. Dolan, the Company's President and Chief Executive Officer ("Mr. Dolan") elected to receive bonuses with respect to fiscal 2013 (collectively, the "2013 Bonus"), if any are earned, in the form of shares of the Company's common stock (collectively, the "2013 Bonus Shares"). The 2013 Bonus Shares, if any are granted, will be granted on a date concurrent with the timing of normal 2013 bonus payouts and will be fully vested as of the date of grant, with the number of 2013 Bonus Shares calculated by dividing amounts equal to 1.5 times the respective 2013 Bonus amounts earned, as determined by the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") by the closing price of the Company's common stock on the date of grant. The Company is recording stock-based compensation expense for the 2013 Bonus Shares commensurate with the expected achievement level represented by the Company's accrual for its company-wide cash bonus program, as the performance metrics for each are consistent. Because no shares have been granted in connection with the 2013 Bonus, there are no shares related to the 2013

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

Bonus reported in the restricted stock grant table below.

On February 15, 2013, Mr. Dolan elected to accept restricted shares of the Company's common stock in lieu of his base salary for the period from January 1, 2013 through December 31, 2013. Mr. Dolan had previously not received any salary payments from the Company for this period. On February 15, 2013, the Company granted Mr. Dolan 183,824 shares of restricted common stock (the "Salary Shares") having a total grant date fair value of \$500,000, equal to Mr. Dolan's base salary for the year ending December 31, 2013. The number of shares was calculated by dividing Mr. Dolan's base salary for the year by \$2.72, the closing price of the Company's common stock on the date of grant. The Salary Shares will vest on December 31, 2013. If Mr. Dolan's employment is terminated by Mr. Dolan with Good Reason (as defined in his employment agreement, as amended), or by the Company without Cause (as defined in his employment agreement, as amended) before December 31, 2013, a pro rata portion of the Salary Shares will vest on the date of such termination. If Mr. Dolan terminates his employment without Good Reason (as defined in his employment agreement, as amended) or his employment by the Company for Cause before December 31, 2013, he will forfeit the Salary Shares. The Company is recording stock-based compensation expense related to the Salary Shares ratably for the period from January 1, 2013 through December 31, 2013. The Salary Shares are included in the amount reported as "Granted" in the restricted stock grant table below.

On February 14, 2013, the Compensation Committee determined that eight executives of the Company, excluding Mr. Dolan, would receive their bonuses with respect to fiscal 2012 in the form of restricted shares of the Company's common stock equal to 100% of their respective target bonus amounts for fiscal 2012 (collectively, the "Executive Bonus Shares"). The number of shares granted to each executive was calculated by dividing his/her target bonus amount by the closing price of the Company's common stock on February 15, 2013, the date of grant. The Executive Bonus Shares will vest 50% on August 15, 2013 and 50% on February 15, 2014, contingent upon each such executive's continued employment with the Company. The Company had accrued for the cash payment of bonuses at the expected company-wide cash payout percentage amount at December 31, 2012; which amounts were less than the target bonus amounts for each individual. The Company is recording the unamortized expense related to the Executive Bonus Shares as stock-based compensation expense through February 15, 2014. These shares are reported as "Granted" in the restricted stock grant table below.

On August 7, 2012, Mr. Dolan elected to receive his fiscal year 2012 bonus, if earned, in the form of restricted shares of the Company's common stock (the "Dolan Bonus Shares"). On August 10, 2012, the Company granted Mr. Dolan 421,348 Dolan Bonus Shares, which equaled Mr. Dolan's potential 2012 bonus at the maximum level of achievement (150% of Mr. Dolan's annual base salary), divided by \$1.78, the closing price of the Company's common stock on the date of grant. During fiscal 2012, the Company recorded stock-based compensation expense for the Dolan Bonus Shares commensurate with the expected achievement level represented by the Company's accrual for its company-wide cash bonus program, as the performance metrics for each were consistent. The Dolan Bonus Shares represented the performance-based stock award shares reported as "Outstanding at January 1, 2013" in the performance-based stock awards table below. On February 14, 2013, the Compensation Committee determined that Mr. Dolan had earned 280,899 Dolan Bonus Shares, of which 50% will vest on August 15, 2013 and the remaining 50% will vest on February 15, 2014, subject to Mr. Dolan's continued employment with the Company. The Company is recording the unamortized expense related to the Dolan Bonus Shares, including incremental expense arising from the modification of this award, through February 15, 2014. Mr. Dolan forfeited the remaining 140,449 Dolan Bonus Shares on February 14, 2013, and these shares are reported as "Forfeited" in the performance-based stock 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 29, 2013 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, 2013	25,116,398	\$ 3.46		
Granted	6,193,977	\$ 2.51		
Exercised	(397,602)	\$ 1.46		
Forfeited	(444,644)	\$ 2.58		
Expired	(558,062)	\$ 4.74		
Outstanding at March 29, 2013	<u>29,910,067</u>	\$ 3.28	6.85	\$ 4,042
Vested or expected to vest at March 29, 2013	27,530,782	\$ 3.35	6.65	\$ 3,640
Exercisable at March 29, 2013	14,664,247	\$ 4.05	4.59	\$ 1,641

The grant date fair values of options to purchase common stock granted in the three months ended March 29, 2013 were estimated using the Black-Scholes valuation model with the following assumptions:

	Three months ended March 29, 2013
Risk-free interest rate	0.82%-1.07%
Expected dividends	—
Weighted average volatility	66.7%
Expected life (years)	4.5-6.0

Additional information regarding the Company's stock options for the three months ended March 29, 2013 is as follows:

Weighted average grant date fair value of stock options granted	\$ 1.34
Total intrinsic value of stock options exercised (in thousands)	\$ 404
Cash received from the exercise of stock options (in thousands)	\$ 578

Restricted Stock Grants - Restricted Stock Awards and Restricted Stock Units

The Company's outstanding restricted stock grants consist of both restricted stock awards ("RSAs") and RSUs. The activity related to the Company's unvested restricted stock grants for the three months ended March 29, 2013 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested balance at January 1, 2013	617,203	\$ 2.45
Granted	1,112,553	\$ 2.72
Vested	(112,085)	\$ 2.59
Forfeited	(3,289)	\$ 1.86
Unvested balance at March 29, 2013	<u>1,614,382</u>	\$ 2.63

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

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The total fair value of restricted stock grant shares vested was \$0.3 million in the three months ended March 29, 2013.

Performance-Based Stock Awards

The activity related to the Company's performance-based stock awards for the three months ended March 29, 2013 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested balance at January 1, 2013	421,348	\$ 1.78
Granted	1,984,500	\$ 2.72
Vested	(469,800)	\$ 2.72
Forfeited	(140,449)	\$ 1.78
Unvested balance at March 29, 2013	<u>1,795,599</u>	<u>\$ 2.57</u>

On February 14, 2013, the Compensation Committee took certain actions regarding performance-based stock awards that had been awarded in previous years but for which the grant date criteria had not been met as of December 31, 2012. These actions included determining that a certain number of these performance-based shares would vest as of February 15, 2013 (the "Vested Performance Shares") and subjecting the remaining performance-based shares (the "Future Performance Shares") to further performance and service conditions. The performance conditions relate to either a portion of or the full fiscal 2013 year and the service conditions were implemented through vesting schedules individually assigned to each Future Performance Share award that provide for service-based vesting through fiscal 2015. The actual number of Future Performance Shares that will ultimately be earned will be determined by the Compensation Committee's assessment of Company performance during fiscal 2013. The Company is regularly assessing the probability that the performance conditions related to the Future Performance Shares will be achieved and is recording stock-based compensation expense based on the results of this assessment.

Stock-Based Compensation

The condensed consolidated statements of operations include stock-based compensation for the three months ended March 29, 2013 and March 30, 2012 as follows (in thousands):

	Three months ended	
	March 29, 2013	March 30, 2012
Product cost of revenue	\$ 52	\$ 53
Service cost of revenue	210	175
Research and development	679	616
Sales and marketing	1,099	467
General and administrative	2,184	806
	<u>\$ 4,224</u>	<u>\$ 2,117</u>

There is no income tax benefit for employee stock-based compensation expense for the three months ended March 29, 2013 or March 30, 2012 due to the valuation allowance recorded.

At March 29, 2013, there was \$27.8 million, net of expected forfeitures, of unrecognized stock-based compensation expense related to unvested stock options and restricted stock awards. This expense is expected to be recognized over a weighted average period of approximately three years.

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

(11) 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 29, 2013 and March 30, 2012:

	Three months ended	
	March 29, 2013	March 30, 2012
United States Government	16%	*
AT&T Inc.	11%	34%
Verizon	*	12%
Softbank BB Corporation	*	11%

* Represents less than 10% of revenue

At March 29, 2013, one customer accounted for 10% or more of the Company's accounts receivable balance, representing approximately 14% of the Company's accounts receivable balance. At December 31, 2012, one customer accounted for 10% or more of the Company's accounts receivable balance, representing approximately 25% 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.

(12) 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 29, 2013	March 30, 2012
United States	69%	75%
Europe, Middle East and Africa	10	6
Japan	16	15
Other Asia Pacific	4	2
Other	1	2
	100%	100%

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.

(13) INCOME TAXES

The Company's income tax provisions for the three months ended March 29, 2013 and March 30, 2012 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 29, 2013 and March 30, 2012 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.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(14) COMMITMENTS AND CONTINGENCIES

The Company is often a party to disputes and legal proceedings that it considers routine and incidental to its business. In the normal course of business, the Company enters into contractual commitments to purchase services, materials, components, and finished goods from suppliers. Under agreements with certain contract manufacturers, the Company may be liable for purchased raw materials procured for the Company by the applicable contract manufacturer. 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 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, 2012, which was filed with the U.S. Securities and Exchange Commission on March 6, 2013.

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. Our products include session border controllers, Session Initiation Protocol ("SIP") session management servers, Voice over IP ("VoIP") switches, SIP application servers, multiprotocol signaling gateways and network analytics tools. Our solutions address the need for communications service providers and enterprises 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.

Currently, we sell our products principally through a direct sales force in the United States, Europe, Asia-Pacific and the Middle East. We continue to expand our presence into new geographies and markets through our relationships with regional channel partners. In May 2012, we implemented our indirect sales channel program, which is focused primarily on enterprise customers, to capture a larger percentage of the Session Border Controller ("SBC") and Unified Communications markets.

Our target customers are comprised of both communications service providers and enterprises. 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 continue to focus on the key elements of our strategy, which 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:

- expanding our solutions to address emerging Unified Communication and IP-based markets, such as SBC, in the enterprise and service provider markets;
- embracing the principles outlined by 3GPP, 4GPP2 and LTE architectures and delivering the industry's most advanced IMS (IP Multimedia Subsystem)-ready SBC product suite;
- leveraging our TDM (time division multiplexing)-to-IP gateway technology leadership with service providers to accelerate adoption of SIP-enabled Unified Communication services;
- expanding and broadening our customer base by targeting the enterprise for SIP trunking and access solutions;
- assisting our customers' ability to differentiate themselves by offering a sophisticated application development platform and service creation environment;

- expanding our global sales distribution, marketing and support capabilities;
- actively contributing to the SIP standards definition and adoption process; and
- pursuing strategic transactions and alliances.

On August 24, 2012, we completed the acquisition of Network Equipment Technologies, Inc. ("NET"), a Delaware corporation. The financial results of NET are included in our financial results for the three months ended March 29, 2013.

In August 2012, we announced that we were implementing a restructuring initiative to streamline operations and reduce our operating costs. In connection with this restructuring plan, we recorded \$1.9 million in the three months ended March 29, 2013, primarily for severance and related costs.

In March 2013, 21 of our executives including Raymond P. Dolan, our President and Chief Executive Officer ("Mr. Dolan") elected to receive bonuses with respect to fiscal 2013 (collectively, the "2013 Bonus"), if any are earned, in the form of shares of our common stock (collectively, the "2013 Bonus Shares"). The 2013 Bonus Shares, if any are granted, will be granted on a date concurrent with the timing of normal 2013 bonus payouts and will be fully vested as of the date of grant, with the number of 2013 Bonus Shares calculated by dividing amounts equal to 1.5 times the respective 2013 Bonus amounts earned, as determined by the Compensation Committee of our Board of Directors (the "Compensation Committee") by the closing price of our common stock on the date of grant. We are recording stock-based compensation expense for the 2013 Bonus Shares commensurate with the expected achievement level represented by the accrual for our company-wide cash bonus program, as the performance metrics for each are consistent.

On February 15, 2013, Mr. Dolan elected to accept restricted shares of our common stock in lieu of his base salary for the period from January 1, 2013 through December 31, 2013. Mr. Dolan had previously not received any salary payments from us for this period. On February 15, 2013, we granted Mr. Dolan 183,824 shares of restricted common stock (the "Salary Shares") having a total grant date fair of \$500,000, equal to Mr. Dolan's base salary for the year ending December 31, 2013. The number of shares was calculated by dividing Mr. Dolan's base salary for the year by \$2.72, the closing price of our common stock on the date of grant. The Salary Shares will vest on December 31, 2013. If Mr. Dolan's employment is terminated by Mr. Dolan with Good Reason (as defined in his employment agreement, as amended), or by us without Cause (as defined in his employment agreement, as amended) before December 31, 2013, a pro rata portion of the Salary Shares will vest on the date of such termination. If Mr. Dolan terminates his employment without Good Reason (as defined in his employment agreement, as amended) or his employment by us for Cause before December 31, 2013, he will forfeit the Salary Shares. We are recording stock-based compensation expense related to the Salary Shares ratably for the period from January 1, 2013 through December 31, 2013.

On February 14, 2013, the Compensation Committee determined that eight of our executives, excluding Mr. Dolan, would receive their bonuses with respect to fiscal 2012 in the form of restricted shares of our common stock equal to 100% of their respective target bonus amounts for fiscal 2012 (collectively, the "Executive Bonus Shares"). The number of shares granted to each executive was calculated by dividing his/her target bonus amount by the closing price of our common stock on February 15, 2013, the date of grant. The Executive Bonus Shares will vest 50% on August 15, 2013 and 50% on February 15, 2014, contingent upon each such executive's continued employment with us. We had accrued for the cash payment of bonuses at the expected company-wide cash payout percentage amount at December 31, 2012; which amounts were less than the target bonus amounts for each individual. We are recording the unamortized expense related to the Executive Bonus Shares as stock-based compensation expense through February 15, 2014.

On August 7, 2012, Mr. Dolan elected to receive his fiscal year 2012 bonus, if earned, in the form of restricted shares of our common stock (the "Dolan Bonus Shares"). On August 10, 2012, we granted Mr. Dolan 421,348 Dolan Bonus Shares, which equaled Mr. Dolan's potential 2012 bonus at the maximum level of achievement (150% of Mr. Dolan's annual base salary), divided by \$1.78, the closing price of our common stock on the date of grant. During fiscal 2012, we recorded stock-based compensation expense for the Dolan Bonus Shares commensurate with the expected achievement level represented by the accrual for our company-wide cash bonus program, as the performance metrics for each were consistent. On February 14, 2013, the Compensation Committee determined that Mr. Dolan had earned 280,899 Dolan Bonus Shares, of which 50% will vest on August 15, 2013 and the remaining 50% will vest on February 15, 2014, subject to Mr. Dolan's continued employment with us. Mr. Dolan forfeited the remaining 140,449 Dolan Bonus Shares on February 14, 2013. We are recording the unamortized expense related to the Dolan Bonus Shares, including incremental expense arising from the modification of this award, through February 15, 2014.

We reported losses from operations of \$13.5 million for the three months ended March 29, 2013 and \$6.2 million for the three months ended March 30, 2012. We reported net losses of \$13.7 million for the three months ended March 29, 2013 and \$6.4 million for the three months ended March 30, 2012.

Our revenue was \$63.3 million in the three months ended March 29, 2013 and \$64.3 million in the three months ended March 30, 2012. Our gross profit was \$37.8 million in the three months ended March 29, 2013 and \$41.8 million in the three months ended March 30, 2012. Our gross profit as a percentage of revenue ("total gross margin") was 59.7% in the three months ended March 29, 2013 and 64.9% in the three months ended March 30, 2012.

Our operating expenses were \$51.3 million in the three months ended March 29, 2013, compared to \$48.0 million in the three months ended March 30, 2012. Our operating expenses in the current year period include \$1.9 million of restructuring expense.

We recorded stock-based compensation expense of \$4.2 million in the three months ended March 29, 2013 and \$2.1 million in the three months ended March 30, 2012. The stock-based compensation actions described above resulted in increased stock-based compensation expense while reducing cash salary and bonus expenses in the three months ended March 28, 2013, and we expect a similar effect throughout the remainder of fiscal 2013.

Lower portfolio yield on our investments, coupled with lower amounts invested in cash equivalents and marketable securities, resulted in lower interest income, which was also a factor in our current year net loss, as was higher interest expense related to the subordinated notes assumed in connection with the NET acquisition.

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

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. 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, 2012. There were no significant changes to our critical accounting policies from December 31, 2012 through March 29, 2013.

Results of Operations

Three months ended March 29, 2013 and March 30, 2012

Revenue. Revenue for the three months ended March 29, 2013 and March 30, 2012 was as follows (in thousands, except percentages):

	Three months ended		Increase (decrease) from prior year	
	March 29, 2013	March 30, 2012	\$	%
Product	\$ 37,796	\$ 41,411	\$ (3,615)	(8.7)%
Service	25,492	22,928	2,564	11.2 %
Total revenue	\$ 63,288	\$ 64,339	\$ (1,051)	(1.6)%

Product revenue is comprised of sales of our communication infrastructure products. The products typically incorporated into our trunking and communication application solutions include our GSX9000 and GSX4000 Open Services Switches and our ASX Voice Application Server. The products typically incorporated into our SBC solutions include our SBC 9000 (formerly the NBS 9000), SBC 5200 (formerly the NBS 5200) and our new SBC 5100 Session Border Controllers.

Additionally, in connection with our acquisition of NET, we began selling the SBC 1000 (formerly the NET UX 1000), the SBC 2000 (formerly the NET UX 2000) and the SBC VX, a hybrid solution (formerly the NET VX). The SBC 1000 provides SBC SIP communication capability to the enterprise branch and small and medium businesses, while the SBC 2000 provides SBC SIP communication capability to the enterprise branch and medium to large businesses. The SBC VX is a hybrid solution sold to small, medium and large enterprises that require a hybrid solution. Certain of our products may be incorporated into either our trunking and communication applications or SBC solutions; these products include, but are not limited to, our PSX Policy & Routing Server, SGX Signaling Gateway, Sonus Insight Management System, ASX Access Gateway Control Function and our suite of network analytical products.

Product revenue for the three months ended March 29, 2013 and March 30, 2012 was comprised of the following (in thousands, except percentages):

	Three months ended		Increase (decrease) from prior year	
	March 29, 2013	March 30, 2012	\$	%
Trunking and communication applications	\$ 14,286	\$ 28,260	\$ (13,974)	(49.4)%
SBC	23,510	13,151	10,359	78.8 %
	<u>\$ 37,796</u>	<u>\$ 41,411</u>	<u>\$ (3,615)</u>	<u>(8.7)%</u>

We recognized \$1.3 million of product revenue in the aggregate from 163 new customers in the three months ended March 29, 2013 and \$0.5 million of product revenue in the aggregate from four new customers in the three months ended March 30, 2012. The increase in new customers in the three months ended March 29, 2013 is primarily attributable to customers who purchased products from the former NET portfolio. 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.

As we had anticipated, our revenue from sales of our trunking and communication application products decreased in the three months ended March 29, 2013 compared to the three months ended March 30, 2012. This decline was largely offset by the growth in sales of our SBC products in the current year quarter compared to the prior year quarter. We expect that our product revenue in fiscal 2013 will increase from fiscal 2012 levels, primarily due to increased sales of our SBC products resulting from our continued and increasing focus on expanding our solutions to address emerging Unified Communication and IP-based markets, such as SBC, in the enterprise and service provider markets.

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 29, 2013 and March 30, 2012 was comprised of the following (in thousands, except percentages):

	Three months ended		Increase from prior year	
	March 29, 2013	March 30, 2012	\$	%
Maintenance	\$ 20,848	\$ 18,624	\$ 2,224	11.9%
Professional services	4,644	4,304	340	7.9%
	<u>\$ 25,492</u>	<u>\$ 22,928</u>	<u>\$ 2,564</u>	<u>11.2%</u>

The increase in service revenue in the three months ended March 29, 2013 compared to the three months ended March 30, 2012 is attributable to \$2.2 million of higher maintenance revenue and \$0.3 million of higher professional services

revenue. Our increased maintenance revenue is primarily due to our increased installed customer base resulting from the acquisition of NET. 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 2013 will increase from fiscal 2012 levels as a result of our larger 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 29, 2013 and March 30, 2012:

Customer	Three months ended	
	March 29, 2013	March 30, 2012
United States Government	16%	*
AT&T Inc.	11%	34%
Verizon	*	12%
Softbank BB Corporation	*	11%

* Represents less than 10% of revenue

International revenue was approximately 31% of revenue in the three months ended March 29, 2013 and approximately 25% of revenue in the three months ended March 30, 2012. 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 \$9.6 million at March 29, 2013 and \$6.7 million at December 31, 2012. Our deferred service revenue was \$40.8 million at March 29, 2013 and \$42.0 million at December 31, 2012. 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 Profit. 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 profit as a percentage of revenue ("gross margin") for the three months ended March 29, 2013 and March 30, 2012 were as follows (in thousands, except percentages):

	Three months ended		Increase (decrease) from prior year	
	March 29, 2013	March 30, 2012	\$	%
Cost of revenue				
Product	\$ 13,895	\$ 9,193	\$ 4,702	51.1 %
Service	11,591	13,392	(1,801)	(13.4)%
Total cost of revenue	\$ 25,486	\$ 22,585	\$ 2,901	12.8 %
Gross margin				
Product	63.2%	77.8%		
Service	54.5%	41.6%		
Total gross margin	59.7%	64.9%		

The decrease in product gross margin in the three months ended March 29, 2013 compared to the three months ended March 30, 2012 was primarily due to product and customer mix, including NET's historically lower gross margins, which reduced our product gross margin by approximately nine percentage points. Higher manufacturing-related costs decreased our gross margin in the three months ended March 29, 2013 by approximately four percentage points compared to the three months ended March 30, 2012. These higher manufacturing-related costs were primarily comprised of higher third-party manufacturing costs and higher freight costs, each of which reduced our product gross margin by approximately two percentage points.

The increase in service gross margin in the three months ended March 29, 2013 compared to the three months ended March 30, 2012 was primarily due to higher service revenue coupled with lower fixed service costs in the current year quarter, which increased our service gross margin by approximately 13 percentage points in the aggregate. The decrease in our fixed service costs in the three months ended March 29, 2013 compared to the three months ended March 30, 2012 was primarily

attributable to the impact of our recent restructuring initiatives, which reduced employee-related expenses, and our recent efforts to consolidate and obtain better pricing on third-party maintenance.

We believe that our total gross margin over the next few years will improve to a range of 60% or greater.

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 29, 2013 and March 30, 2012 were as follows (in thousands, except percentages):

Three months ended		Decrease from prior year	
March 29, 2013	March 30, 2012	\$	%
\$ 17,501	\$ 18,387	\$ (886)	(4.8)%

The decrease in research and development expenses in the three months ended March 29, 2013 compared to the three months ended March 30, 2012 is attributable to \$0.8 million of lower expense for product development (third-party development, prototype and test equipment costs) and \$0.4 million of lower employee-related expenses, partially offset by \$0.3 million of net increases in other research and development 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. We believe that rapid technological innovation is critical to our long-term success, and we are tailoring our investments to meet the requirements of our customers and market. We believe that our research and development expenses for fiscal 2013 will increase modestly from fiscal 2012 levels due to our increased focus on new product development and the inclusion of a full year of expenses for NET.

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 29, 2013 and March 30, 2012 were as follows (in thousands, except percentages):

Three months ended		Increase from prior year	
March 29, 2013	March 30, 2012	\$	%
\$ 21,114	\$ 20,585	\$ 529	2.6%

The increase in sales and marketing expenses in the three months ended March 29, 2013 compared to the three months ended March 30, 2012 is attributable to \$0.4 million of higher marketing and trade show expenses and \$0.3 million of higher employee-related expenses, partially offset by \$0.2 million of net decreases in other sales and marketing expenses. The increase in employee-related expense is primarily attributable to higher headcount in the current year quarter, the combined result of higher headcount related to our continued focus on expanded sales coverage and the acquisition of NET. We believe that our sales and marketing expenses will increase in fiscal 2013 from fiscal 2012 levels, primarily attributable to increased personnel and related costs, including such costs attributable to the inclusion of a full year of expenses for NET, as well as our investment in our expanded sales and marketing programs.

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 29, 2013 and March 30, 2012 were as follows (in thousands, except percentages):

Three months ended		Increase from prior year	
March 29, 2013	March 30, 2012	\$	%
\$ 10,710	\$ 8,979	\$ 1,731	19.3%

The increase in general and administrative expenses in the three months ended March 29, 2013 compared to March 30, 2012 is attributable to \$0.7 million of higher employee-related expenses, \$0.5 million of higher expense related to foreign currency translation, \$0.3 million of higher financial-related costs, such as expense for doubtful account reserves, tax-related expenses and bank fees, and \$0.2 million of net increases in other general and administrative expenses. The increase in employee-related expenses is primarily attributable to higher stock-based compensation expense, partially offset by lower salary and related expenses. This change was expected due to the equity-based actions described in the Overview section of this Management's Discussion and Analysis of Financial Condition and Results of Operations. We believe that our general and administrative expenses will increase in fiscal 2013 compared to fiscal 2012 levels, primarily due to higher stock-based compensation expense.

Restructuring Expense. On August 7, 2012, we announced that we had committed to a restructuring initiative to streamline operations and reduce operating costs by closing and consolidating certain facilities and reducing our worldwide workforce. In connection with this ongoing initiative, we recorded \$1.9 million of restructuring expense in the three months ended March 29, 2013 for severance and related costs in connection with reducing our workforce. We expect to record approximately \$1.5 million of restructuring expense in the second quarter of fiscal 2013.

We did not record restructuring expense in the three months ended March 30, 2012.

Interest Income, net. Interest income and interest expense for the three months ended March 29, 2013 and March 30, 2012 were as follows (in thousands, except percentages):

	Three months ended		Increase (decrease) from prior year	
	March 29, 2013	March 30, 2012	\$	%
Interest income	\$ 162	\$ 221	\$ (59)	(26.7)%
Interest expense	(24)	(6)	18	300.0 %
Interest income, net	\$ 138	\$ 215	\$ (77)	(35.8)%

Interest income consists of interest earned on our cash equivalents, marketable debt securities and long-term investments. Interest expense in the three months ended March 29, 2013 relates to interest on capital lease obligations and interest on the debt assumed in connection with the acquisition of NET. Interest expense in the three months ended March 30, 2012 relates to interest on capital lease obligations. The decrease in interest income, net, in the current year quarter compared to the prior year quarter is attributable to a lower average portfolio yield on lower invested amounts in the current year, coupled with the aforementioned interest expense related to the assumed NET debt.

Income Taxes. We recorded provisions for income taxes of \$0.4 million in the three months ended March 29, 2013 and \$0.5 million in the three months ended March 30, 2012. 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. The provision for the three months ended March 29, 2013 also includes the tax effect of the amortizable goodwill arising from the acquisition of NET. These estimates are reevaluated each quarter based on our estimated tax rate for the full fiscal year.

The provisions for income taxes for the three months ended March 29, 2013 and March 30, 2012 represent forecasted tax expense on the earnings of our foreign operations. Our effective tax rate for both three-month periods was less than the statutory federal and state rates due to the existence of a valuation allowance on our domestic losses.

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 29, 2013	March 30, 2012	Change
Net loss	\$ (13,748)	\$ (6,438)	\$ (7,310)
Adjustments to reconcile net loss to cash flows provided by (used in) operating activities	9,133	5,117	4,016
Changes in operating assets and liabilities	10,923	(2,198)	13,121
Net cash provided by (used in) operating activities	\$ 6,308	\$ (3,519)	\$ 9,827
Net cash (used in) provided by investing activities	\$ (20,421)	\$ 9,741	\$ (30,162)
Net cash provided by financing activities	\$ 1,066	\$ 908	\$ 158

Our cash, cash equivalents, marketable securities and long-term investments totaled \$284.4 million at March 29, 2013 and \$279.6 million at December 31, 2012. We had cash and short-term investments held by our foreign subsidiaries aggregating approximately \$6 million at March 29, 2013 and approximately \$7 million at December 31, 2012. 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.

Our operating activities provided \$6.3 million of cash in the 2013, compared to \$3.5 million of cash used in the three months ended March 30, 2012.

Cash provided by operating activities in the three months ended March 29, 2013 was primarily the result of lower accounts receivable and other operating assets and higher deferred revenue, partially offset by decreases in accounts payable and accrued expenses and other long-term liabilities and an increase in inventory. The decrease in accounts receivable primarily reflects payments in the quarter, combined with lower revenue in the first quarter of the fiscal year compared to the fourth quarter of the prior year, consistent with our historical experience. The decrease in accounts payable primarily reflects payments for fiscal 2012 year-end purchases. The reduction 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 employee incentive bonus program, as well as lower taxes payable amounts. The increase in inventory levels was primarily due to purchases of materials to fulfill expected shipments in the near-term. Our net loss, adjusted for non-cash items such as depreciation, amortization and stock-based compensation, used \$4.6 million of cash.

Cash used in operating activities in the three months ended March 30, 2012 was primarily the result of higher other operating assets and inventory and lower accounts payable, accrued expenses and other long-term liabilities, and deferred revenue. These amounts were partially offset by lower accounts receivable. The increase in other operating assets was primarily related to prepayments of royalties, licenses and maintenance. The increase in inventory levels was primarily due to purchases of materials to fulfill expected shipments in the near-term. The reduction 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 employee incentive bonus program. The decrease in accounts receivable primarily reflects payments in the quarter, combined with lower revenue in the first quarter of fiscal 2012 compared to the fourth quarter of fiscal 2011. Our net loss, adjusted for non-cash items such as depreciation, amortization and stock-based compensation, used \$1.3 million of cash.

Our investing activities used \$20.4 million of cash in the three months ended March 29, 2013, comprised of \$19.4 million of net purchases of marketable securities and \$1.0 million of investments in property and equipment. Our investing activities provided \$9.7 million of cash in the three months ended March 30, 2012, comprised of \$11.8 million of net maturities of marketable securities, partially offset by \$2.1 million of investments in property and equipment.

Our financing activities provided \$1.1 million of cash in the three months ended March 29, 2013, comprised of \$0.9 million of proceeds from the sale of our common stock in connection with our Amended and Restated 2000 Employee Stock Purchase Plan ("ESPP"), and \$0.6 million of proceeds from the exercise of stock options. These amounts were offset by \$0.3 million of cash used to pay withholding obligations related to the net share settlement of restricted stock awards upon vesting and \$31,000 for payments on our capital leases for office equipment. Our financing activities provided \$0.9 million of cash in the three months ended March 30, 2012, comprised of \$1.0 million of proceeds from the sale of our common stock in connection with our ESPP and \$39,000 of proceeds from the exercise of stock options. These amounts were partially offset by

\$0.1 million of cash used to pay withholding obligations related to the net share settlement of restricted stock awards upon vesting and \$33,000 for payments on our capital leases for office equipment.

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. 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 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 14 to our condensed consolidated financial statements for a description of our contingencies.

Recent Accounting Pronouncements

On March 4, 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-05, *Foreign Currency Matters (Topic 830) - Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity* ("ASU 2013-05"), which indicates that the entire amount of a cumulative translation adjustment ("CTA") related to an entity's investment in a foreign entity should be released when there has been either: (a) a sale of a subsidiary or group of net assets within a foreign entity and the sale represents the substantially complete liquidation of the investment in a foreign entity; (b) the loss of a controlling financial interest in an investment in a foreign entity (i.e., the foreign entity is deconsolidated); or (c) the step acquisition of a foreign entity (i.e., when the accounting for an entity has changed from applying the equity method for an investment in a foreign entity to consolidating the foreign entity). ASU 2013-05 does not change the requirement to release a pro rata portion of the CTA of the foreign entity into earnings for a partial sale of an equity method investment in a foreign entity. ASU 2013-05 is effective for us January 1, 2014, although early adoption is permitted. We do not expect the adoption of ASU 2013-05 to have a material impact on our consolidated financial statements.

On February 5, 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* ("ASU 2013-02"), which requires entities to disclose changes in accumulated other comprehensive income balances by component (i.e., unrealized gains or losses on available-for-sale securities or foreign-currency items) and significant items reclassified out of accumulated other comprehensive income by component either on the face of the income statement or as a separate footnote to the financial statements. ASU 2013-02 does not change the current requirements for interim financial statement reporting of comprehensive income. ASU 2013-02 became effective for us beginning January 1, 2013. We do not have significant items reclassified out of accumulated other comprehensive income and accordingly, the adoption of ASU 2013-02 did not impact our 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, 2012.

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 29, 2013.

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 29, 2013 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

We are often a party to disputes and legal proceedings that we consider routine and incidental to our business. Management does not expect the results of any of these actions to have a material effect on our business or consolidated financial statements.

Item 1A. Risk Factors

We have revised 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, 2012. The following discussion includes six revised risk factors ("We have incurred net losses and may incur additional net losses", 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", "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", "A portion of our revenue is generated from government sales, which is a new line of business for us due to our recent acquisition of NET. 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" and "Consolidation in the telecommunications industry could harm our business") that reflect material development subsequent to the discussion of risk factors included in our most recent Annual Report on Form 10-K for the fiscal year ended December 31, 2012. In addition, we moved one risk factor ("We are exposed to fluctuations in currency exchange rates that could negatively impact our financial results and cash flows") closer to the beginning of our Risk Factors section as part of our assessment of the order of magnitude of each of our individual risk factors. Except for the seven 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, 2012. 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 voice infrastructure 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 have become increasingly 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 fiscal 2013, fiscal 2012, fiscal 2011 and fiscal 2010. 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. Additionally, if we are unable to generate recurring business from our existing customers, our consolidated financial statements could be materially and adversely affected.

To date, we have shipped our products to a limited number of customers and our future success will depend on our ability to attract additional customers beyond our current customer base. In fiscal 2012, one customer, AT&T, contributed more than 10% of our revenue, representing approximately 20% of our revenue. In fiscal 2011, two customers, Bahamas Telecommunications Company Ltd. and AT&T, each contributed more than 10% of our revenue, representing approximately 26% of our revenue in the aggregate. 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; and
- new product introductions by our competitors.

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 distribution, channel and systems integrator 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. Factors that may affect our ability to generate recurring revenues from our existing customers include the following:

- customer willingness to implement our new voice infrastructure products;
- 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 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 distribution, channel and systems integrator partners to resell our products. 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. 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 our operating results could suffer.

We continue to enhance our sales strategy, which we expect will include more significant engagements with distribution and channel partners to resell our products. In addition, some of our target customers, including the government, rely on systems integrators to incorporate new equipment or services into their networks. Our future success is dependent upon establishing and maintaining successful relationships with a variety of value-added distribution, channel and systems integrator partners. While we have begun the process of identifying and entering into agreements with software application, system integrator and OEM or resale partners, we will need to increase our engagement with such partners for us to be successful. 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 the loss of, or reduction in sales by, these partners could materially reduce our revenues. Our sales through systems integrators 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 product is dependent on the systems integrator, 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, channel and systems integrator 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 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 a portion 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.

In 2012, the macro-environment for our media gateway trunking business faced significant declining revenues that happened faster than we were anticipating. Even though we continue to transform our company from a media gateway

trunking business to an SBC business, we remain dependent upon our voice infrastructure products, and our revenues will continue to depend upon their commercial success for the foreseeable future. If the market for these products continues to significantly decline and if our SBC 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 SBC business, our current revenues still depend 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. Product revenue from sales of our trunking and communications applications products was \$85.7 million for the year ended December 31, 2012, \$116.5 million for the year ended December 31, 2011 and \$122.2 million for the year ended December 31, 2010, which represented decreases of 26.4% in fiscal 2012 compared to fiscal 2011 and 4.7% in fiscal 2011 compared to fiscal 2010. If the market for these products continues to significantly decline and if our SBC sales do not accelerate as quickly as we forecast, our operating results could suffer.

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 developing new technology, products and solutions. 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. 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.

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

In August 2012, we announced that we were implementing a restructuring initiative to streamline operations and reduce our operating costs. To date, this restructuring plan has resulted in a workforce reduction of approximately 169 people worldwide. In connection with this action, we recorded restructuring expense of \$9.6 million to date, comprised of \$4.2 million for the consolidation of certain facilities, \$5.1 million for severance and related costs and \$0.3 million for the write-off of assets associated with the headcount reduction and facilities consolidations. During fiscal 2010 and 2009, we had a number of restructuring activities, including office closings and lay-offs. 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 the acquisition of Network Equipment Technologies, Inc. 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 the acquisition of Network Equipment Technologies, Inc. (NET) on a timely basis, or at all, for a variety of reasons, including the following:

- problems or delays in assimilating or transitioning to Sonus the acquired 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 are assuming in the acquisition, which could result in unexpected litigation or regulatory exposure, unfavorable accounting treatment, unexpected increases in taxes due, a loss of anticipated tax benefits, significant issues with product quality or development, or other adverse effects on our business, operating results or financial condition;
- multiple or overlapping product lines as a result of our acquisitions 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 resulting from the acquisition;
- adverse effects on existing business relationships of Sonus or NET with the 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 NET'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 NET 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 expect to 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 employees' interests with the interests of our stockholders, encourage employee retention, and provide competitive compensation packages. In 2007, our stockholders approved a stock incentive plan, which includes a limited amount of shares to be granted under such plan. In 2010, our stockholders approved amendments to this plan to, among other things, increase the number of shares of our common stock that may be granted under this plan from 14,902,701 to 34,902,701. Additionally, in connection with the acquisition of NET, we assumed NET's 2008 Stock Incentive Plan, which provides for the award of stock options, restricted stock, performance-based awards and stock appreciation rights to Sonus employees who were previously NET employees and Sonus employees hired after August 24, 2012, the NET acquisition date.

At our 2013 annual meeting of stockholders, we will request that the stockholders as of the record date approve an amendment to our 2007 Plan to increase the maximum number of shares of the Company's common stock issuable under the 2007 Plan by 21 million, from 34,902,701 to 55,902,701. Since our stockholders last approved amendments to the 2007 Plan in 2010, we have granted options to purchase our common stock and shares of restricted stock aggregating 7,494,627 shares under the plan in 2012, representing approximately 2.67% of our then outstanding common stock; options to purchase our common stock and shares of restricted stock aggregating 7,761,330 shares under the plan in 2011, representing approximately 2.78% of our then outstanding common stock; and options to purchase our common stock and shares of restricted stock aggregating 6,081,600 shares under the plan in 2010, representing approximately 2.19% of our then outstanding common stock. These options and shares of restricted stock were issued as a result of substantial change in our management as well as our normal hiring and retention needs. The number of shares subject to options granted in 2010, 2011 and 2012 was due to our continued need to attract and retain executives in connection with the reconstitution of our management team during the past three years. Specifically, in 2010, we hired a new Chief Executive Officer; in 2011, we hired a new Chief Financial Officer, a new Senior Vice President of Worldwide Sales, a new Vice President of Business Development, along with other key officers and employees; and in 2012, we hired a new Vice President of Human Resources. As of April 1, 2013, there were 2,174,248 shares available for future issuance pursuant to future awards under the 2007 Plan.

We expect that the number of shares available for grant under our stock incentive plans will be insufficient for our needs in the near future and it is not certain that our stockholders will approve an increase in the number of shares that we are authorized to issue under such plans. If our stockholders do not approve the amendment to the 2007, Plan, as suggested, 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 as well as concerns regarding another potential recession, 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 environment and fragile financial markets 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, particularly the continuing tension in Southeast Asia, the Middle East and Africa, as well as political and economic issues in Europe, including the impact of European sovereign debt concerns, 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 Alcatel-Lucent, Ericsson LM Telephone Company, Huawei Technologies Co. Ltd., NEC Corp. and Nokia Corp., all of which are our direct competitors. We also face competition from other telecommunications and networking companies, including Acme Packet, Inc., Cisco Systems, Inc. and GENBAND Inc., that design competing products. 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 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;
- 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 business could be jeopardized if we are unable to protect our intellectual property or become subject to intellectual property rights claims, which could require us to incur significant cost; 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 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.

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.

Any lawsuits regarding intellectual property rights, regardless of their success, would be time-consuming, expensive to resolve and would divert our management's time and attention. In addition, although historically our costs to defend lawsuits relating to indemnification provisions in our product agreements have been insignificant, the costs were significant in fiscal 2008 and may be significant in future periods.

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. In 2009, we entered into a letter agreement with our then-largest stockholder, pursuant to which we agreed to take certain actions related to our corporate governance. While we believe we have satisfied in full our obligations under such letter agreement, there can be no assurance that such stockholder and/or any other stockholder 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, our charter documents and our stockholder rights plan 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.

In addition, we adopted a limited duration stockholder rights plan on June 26, 2008, which was amended on June 10, 2011 to extend the expiration date of such plan until June 26, 2013. The rights are not intended to prevent a takeover, and we believe these rights will help us in our negotiations with any potential acquirers. However, if the Board of Directors believes that a particular acquisition of us is undesirable, the rights may have the effect of rendering more difficult or discouraging that acquisition. The rights may substantially dilute the stock ownership of a person or group that attempts to acquire us (or a significant percentage of our outstanding capital stock) on terms, or in a manner, not approved by our Board of Directors, except pursuant to an offer conditioned upon redemption of the rights.

Any provision of our amended and restated certificate of incorporation or amended and restated by-laws, our stockholder rights plan 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, provisions of Delaware law and our stockholder rights plan 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 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. In the past, we have been named as a defendant in 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.

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, concerns regarding European sovereign debt, 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 the past three months, we have switched from five contract manufacturers to three contract manufacturers without any supply disruption. Additionally, we had switched from one single-source manufacturer to another in 2009 as well as in 2011 without any supply disruptions during either of these transitions. However, 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-expedited orders from the 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 time 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.

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 two executive departures in fiscal 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. We had three executive departures in fiscal 2011: the departure of our Chief Financial Officer and our Vice President of Product Operations, both in August 2011, and the departure of our Vice President of Engineering and Chief Architect in April 2011. While we have since hired replacements, 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.

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.

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.

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 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 government sales, which is a new line of business for us due to our recent acquisition of NET. 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 governmental agencies. Most of these contracts do not include long-term purchase commitments. Government sales is a new line of business for us due to the recent acquisition of NET, 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 product, 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 the Promina product. Spending by government customers fluctuates based on budget allocations and the timely passage of the annual federal budget. An impasse in federal government budget decisions could lead to substantial delays or reductions in federal spending. During 2011, the U.S. federal government was unable to reach agreement on budget reduction measures required by the Budget Control Act of 2011 (the "Budget Act"). The sequestration began on March 1, 2013 as a result of budget cuts enacted by the Budget Act, including automatic reductions in both defense and discretionary spending. These automatic budget cuts could cause a substantial reduction in revenues from our federal government customers.

The federal government has issued specific requirements for IP networking products to incorporate a technology referred to as "IPv6" and requires products destined for use in military applications be certified by the Joint Interoperability Test Command ("JITC"). If we are unable to complete development efforts necessary to support IPv6 within the timeframes required by the federal government or are unable to obtain JITC certifications as needed, our government sales, and hence our revenue and results of operations, may suffer.

A substantial 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 recent acquisition of Acme Packet, Inc. and the pending acquisition of Tekelec, both by Oracle, Inc., 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 service revenue.

Most of our sales are on an open credit basis, with typical payment terms of 30 to 45 days. We monitor individual customer payment capability in granting such open credit arrangements, seek 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 may be 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. 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 and the International Accounting Standards Board and Financial Accounting Standards Board joint project on lease accounting are both expected to be finalized in 2013 and, if ratified, could be effective for companies as early as 2015, 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 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 \$17 million as a result of our acquisition of NET. Goodwill, which increased by approximately \$29 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, in recent years, 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, or the FCPA, and the UK Bribery Act of 2010, or 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. These requirements will require us 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 will be costs associated with these investigation and disclosure requirements, in addition to the potential costs of remediation and other 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.

With the acquisition of NET in August 2012, we acquired a subsidiary that may have exported or re-exported certain of its products in violation of U.S. export laws. NET learned of these potential violations in its fiscal year ended March 25, 2011. Consequently, NET launched an internal investigation of its export-related activities, and reported the results of the investigation to the U.S. government. In June 2012, the U.S. government, through the Bureau of Information Security and Office of Foreign Assets Control closed its investigation with no penalty.

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

We have not announced any current plans or programs to repurchase shares of our common stock. However, 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. The following table summarizes repurchases of our common stock during the first quarter of fiscal 2013, which represent shares returned to satisfy tax withholding obligations:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
January 1, 2013 to January 25, 2013	1,790	\$ 2.23	—	—
January 26, 2013 to February 22, 2013	116,872	\$ 2.76	—	—
February 23, 2013 to March 29, 2013	2,665	\$ 2.46	—	—
Total	121,327	\$ 2.74	—	—

Item 6. Exhibits

Exhibit No.	Description
10.1 +	Amendment to Employment Agreement between Sonus Networks, Inc. and Raymond P. Dolan, accepted February 15, 2013 (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K, filed February 19, 2013 with the SEC).
10.2 +	Amendment to Employment Agreement between Sonus Networks, Inc. and Maurice Castonguay, accepted February 15, 2013 (incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K, filed February 19, 2013 with the SEC).
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10.4 +	Amendment to Executive Severance and Arbitration between Sonus Networks, Inc. and Matthew Dillon, accepted February 15, 2013 (incorporated by reference to Exhibit 10.4 to the registrant's Current Report on Form 8-K, filed February 19, 2013 with the SEC).
10.5 +	Senior Management Cash Incentive Plan, as amended on March 28, 2013 (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K, filed April 1, 2013 with the SEC).
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101.INS **	XBRL Instance Document
101.SCH **	XBRL Taxonomy Extension Schema
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101.LAB **	XBRL Taxonomy Extension Label Linkbase
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- * Filed herewith.
- + Management contract or compensatory plan or arrangement.
- ** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 17 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

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: May 2, 2013

SONUS NETWORKS, INC.

By: /s/ Maurice L. Castonguay

Maurice L. Castonguay
Senior Vice President and Chief Financial Officer (Principal
Financial Officer and Principal Accounting Officer)

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Sonus Networks, Inc.

4 Technology Park Drive, Westford, MA 01886

August 18, 2011

Mr. Anthony Scarfo
<By Electronic Delivery>

Dear Tony:

On behalf of Sonus Networks, Inc. (the "Company"), I am pleased to offer you employment on the following terms and conditions.

1. **Position.** You will be employed as Vice President of Business Development, reporting to me. As the Company's organization evolves, this reporting structure may change and you may be assigned such other management duties and responsibilities as the Company may determine, in addition to performing duties and responsibilities currently associated with the position of Vice President of Business Development. As a full-time employee of the Company, you will be expected to devote your full business time and energies to the business and affairs of the Company.
2. **Commencement Date/Nature of Relationship.** Your commencement date shall be determined by September 2, 2011. No provision of this letter shall be construed to create an express or implied employment contract for a specific period of time. Employment at Sonus Networks, Inc. is "at will" and either you or the Company may terminate the employment relationship at any time and for any reason or no reason.
3. **Base Compensation.** Your initial base salary ("Base Salary") will be at the annualized rate of \$270,000, less applicable state and federal withholdings, paid twice monthly in accordance with the Company's normal payroll practices.
4. **Target Bonus.** You will be eligible to participate in the Company's annual cash incentive program, known as TIPS, during each year you are employed by the Company, with a target bonus of 30% of your then-current annual base salary ("Target Bonus"). For 2011, your Target Bonus will be pro rated. Specific objectives to achieve your Target Bonus for 2011 will be agreed upon with me within the first thirty (30) days of your employment. Your annual Target Bonus, if any, shall be paid as soon as practicable following the Company's public disclosure of its financial results for the applicable bonus year.
5. **Stock Option Grant.** You will be granted non-qualified options to purchase 150,000 shares of common stock, \$0.001 par value per share, under the Company's 2007 Stock Incentive Plan, as amended (the "Plan"), subject to the terms of the Plan and the terms of the Company's stock option agreement, which shall reflect the terms of this Agreement. The grant date will be on the earliest 15th day of a month that next follows your Commencement Date or the first business day thereafter if that day is not a business day. The per share exercise price will be the per share closing price of the Company's common stock on the grant date. Subject to the provisions of this Agreement, the options shall vest and become exercisable as follows: (A) 25% of the shares (37,500 shares) shall vest on the first anniversary of the Commencement Date and (B) the remaining 75% of the shares (112,500 shares) shall vest in equal monthly increments thereafter through the fourth anniversary of the Commencement Date.
6. **Performance Share Grant.** In addition to the above-referenced equity grant, you will be eligible to receive the following equity compensation upon the following terms and conditions:
 - (a) You will be granted 112,500 restricted shares of the Company's common stock under the Plan (the "Performance Shares"), subject to the terms and conditions of the Plan and the Company's restricted stock agreement, which will reflect the terms of this Agreement. Such Performance Shares will be granted on the first 15th day of the month that next follows Your Commencement Date or the first business day thereafter if that day is not a business day (the Performance Share Grant Date).

- (b) The Performance Shares will only vest upon certain conditions:
- (i) the performance criteria will be established between you and your manager, and agreed and approved by the Board of Directors; and
 - (ii) except as provided below, you must remain employed with the Company at the end of such Performance Period.
- (c) The CEO, in his sole discretion, will establish the "initiate", "threshold", "target" and "maximum" levels of achievement during the Performance Period. If Company performance (as determined by the Compensation Committee in its sole discretion) is determined to be:
- (i) above the "initiate" level of achievement, then Performance Shares will vest, on the schedule and subject to the terms and conditions set forth below;
 - (ii) at the "threshold" level of achievement, then 37,500 Performance Shares will vest, on the schedule and subject to the terms and conditions set forth below;
 - (iii) at the "target" level of achievement, then 75,000 Performance Shares will vest, on the schedule and subject to the terms and conditions set forth below; and
 - (iv) at the "maximum" level of achievement, 112,500 Performance Shares will vest, on the schedule and subject to the terms and conditions set forth below;
- provided, however, that the number of Performance Shares that will vest for performance between the "initiate", "threshold", "target", and "maximum" levels of achievement for the Performance Period will be pro rated.
- (d) The number of Performance Shares determined by the formula described in Section 6(c) above (subsequently referred to as "Restricted Shares") will then vest as follows:
- (i) 25% of the Restricted Shares will vest on the date the Company reports its financial results by which the achievement of the performance metrics can be determined; and
 - (ii) subject to your continued employment with the Company on each of the following vesting dates, 25% of the Restricted Shares will vest on each of the second, third and fourth anniversaries of your Commencement Date.
- (e) In the event that you are granted Performance Shares or Restricted Shares that will not vest, you will automatically forfeit (the "Forfeiture"), without any action required on your part, all of the unvested Performance Shares and Restricted Shares (the "Forfeited Shares") that you received under this Agreement without the payment of consideration by the Company and the Forfeited Shares will revert to the Company. Upon and after Forfeiture, the Company will not pay any dividend to you on account of such Forfeited Shares or permit you to exercise any of the privileges or rights of a stockholder with respect to such Forfeited Shares, but shall, in so far as permitted by law, treat the Company as the owner of the Forfeited Shares.
- (f) Section 83(b) Election. You may elect under Section 83(b) of the Internal Revenue Code of 1986, as amended, to be taxed at the time Performance Shares are granted on the Performance Share Grant Date (a "Section 83(b) Election"). A Section 83(b) Election must be filed with the Internal Revenue Service within thirty (30) days of the Performance Share Grant Date in connection with the grant of any Performance Shares. You are obligated to pay the Company the amount of any federal, state, local or other taxes of any kind required by law to be withheld with respect to the granting (if a Section 83(b) Election is made) or vesting (if a Section 83(b) Election is not made) of the shares. If you do not make a Section 83(b) Election, you will satisfy such tax withholding obligations by delivery to the Company, on each date on which shares of common stock will vest and such number of shares that vest on such date will have a fair market value (calculated using the last reported sale price of the common stock of

the Company on the NASDAQ Global Select Market on the trading date immediately prior to such vesting date) equal to the amount of the Company's withholding obligation; provided, however, that the total tax withholding cannot exceed the Company's minimum statutory withholding obligations (based on minimum statutory withholding rates for federal and state tax purposes, including payroll taxes, that are applicable to such supplemental taxable income). Such delivery of shares of common stock to the Company will be deemed to happen automatically, without any action required on your part, and the Company is hereby authorized to take such actions as are necessary to effect such delivery of shares to the Company.

7. Employment Eligibility. In compliance with the Immigration Reform and Control Act of 1986, you are required to establish your identity and employment eligibility. Therefore, on your first day of employment you will be required to fill out an Employment Verification Form and present documents in accordance with this form.

8. Benefits. You will be entitled as an employee of the Company to receive such benefits as are generally provided its employees in accordance with Company policy as in effect from time to time. Company benefits include group health, life and dental insurance, and liberal holidays, vacation and 401(k) programs. All employees begin accruing three (3) weeks of vacation upon date of hire in accordance with Company policy. The Company is committed to providing a healthy work environment for every employee. Therefore, we provide a smoke free environment and require all employees to comply. The Company retains the right to change, add or cease any particular benefit.

9. Confidentiality. The Company considers the protection of its confidential information, proprietary materials and goodwill to be very important. Therefore, as a condition of your employment and the stock option and restricted stock grants described above, you and the Company will become parties to a Confidentiality, Non-Competition and Assignment of Inventions Agreement ("Confidentiality Agreement"). Two copies of this agreement are sent with this offer letter. Both copies must be signed and returned to the Company prior to the Commencement Date.

10. Termination and Eligibility for Severance. Upon any termination of your employment (the "Date of Termination"), you will be paid (i) any and all earned and unpaid portion your Base Salary through the Date of Termination; (ii) any accrued but unused vacation pay owed to you in accordance with Company practices up to and including the Date of Termination; and (iii) any allowable and unreimbursed business expenses incurred through the Date of Termination that are supported by appropriate documentation in accordance with the Company's policies. Hereafter, items (i) through (iii) in this Section 10 are referred to as "Accrued Benefits." If you terminate your employment for any reason, or if the Company terminates your employment for Cause (as defined below), you will be entitled to receive only the Accrued Benefits.

If the Company terminates your employment without Cause (as defined below), and subject to the additional conditions of this Agreement, the Company will provide you the following severance and related post-termination benefits:

- (a) The Company will continue to pay your then-current Base Salary, less applicable state and federal withholdings, in accordance with the Company's usual payroll practices, for a period of twelve (12) months following the Date of Termination;
- (b) The Company will pay your then-current annual Target Bonus at 100% of target, less applicable state and federal withholdings, with such bonus to be paid at the same time and in the same form as the Target Bonus otherwise would be paid;
- (c) The Company will continue to pay the Company's share of medical, dental and vision insurance premiums for you and your dependents between the Date of Termination and the earlier of (i) the date you accept other employment that provides you with commensurate insurance coverage; and (ii) the twelve (12) month anniversary of the Date of Termination; provided, that if immediately prior to the termination of your employment you were required to contribute towards the cost of such premiums as a condition of receiving such insurance, you may be required to continue contributing towards the cost of such premiums under the same terms and conditions as applied to you and your dependents immediately prior to the termination of your employment in order to receive such continued insurance coverage;

- (d) Any stock options granted to you by the Company to purchase the Company's common stock that are unvested as of the Date of Termination and would have vested in the twelve (12) month period immediately following the Date of Termination will accelerate and immediately vest and become exercisable upon termination, and your stock options that are or become vested will remain outstanding and exercisable for the shorter of three (3) years following the Date of Termination or the original remaining life of the options; and
- (e) Any Restricted Shares that are unvested as of the termination date and that would vest during the twelve (12) months following your termination will accelerate and immediately vest upon termination and such shares will be freely marketable; provided that if your termination occurs in contemplation of, upon or after an Acquisition, then all unvested Restricted Shares at that time will fully accelerate, immediately vest upon termination and be freely marketable.
- (f) If the Company terminates your employment for any reason other than Cause, or your employment terminates due to your death or Disability, and such termination occurs during the Performance Period, 75,000 Performance Shares will vest as follows:
 - (ii) the remainder of such shares shall vest as Restricted Shares pursuant to the vesting schedule set forth in Section 10(e) above.

The Company's provision of the benefits described in Sections 10(a), (b), (c), (d), (e) and (f) above shall be conditioned upon (y) your executing and delivering to the Company a release of all claims of any kind or nature in favor of the Company in a form acceptable to the Company (the "Release Agreement"), and on such Release Agreement becoming effective as a matter of law; and (z) your compliance with the covenants in your Confidentiality Agreement. The payments described in Section 10(a) above shall commence on first regular payroll date after the eighth (8th) day following your delivery of the executed Release Agreement to the Company, provided that you have not revoked the Release Agreement. The Company shall have no further obligation to you in the event your employment with the Company terminates at any time, other than those obligations specifically set forth in this Section 10.

The Company may terminate your employment at any time with or without Cause by written notice to you specifying the Date of Termination. If you wish to terminate your employment for any reason, you agree to provide written notice to the Company at least thirty (30) days prior to the Date of Termination.

11. Definition of Cause. "Cause" as used in this Agreement means the occurrence of any of the following: (i) your indictment for, formal admission to (including a plea of guilty or *nolo contendere* to), or conviction of, a felony, a crime of moral turpitude, dishonesty, breach of trust or unethical business conduct, or any crime involving the Company, (ii) gross negligence or willful misconduct by you in the performance of your duties that is likely to have an adverse affect on the Company or its reputation; (iii) your commission of an act of fraud or dishonesty in the performance of your duties; (iv) repeated failure by you to perform your duties which are reasonably and in good faith requested in writing by your manager, the Chief Executive Officer or the Board of Directors of the Company; or (v) material breach of this Agreement by you, which you do not cure within ten (10) days following receipt by you of such written notice notifying you of such breach, or (vi) breach by you of any obligation under your Confidentiality Agreement with the Company.

12. Tax Implications of Termination Payments. Subject to this Section 12, any payments or benefits required to be provided under Section 10 shall be provided only after the date of your "separation from service" with the Company as defined under Section 409A of the U.S. Internal Revenue Code of 1986, as amended, and the guidance issued thereunder ("Section 409A"). The following rules shall apply with respect to distribution of the payments and benefits, if any, to be provided to you under Section 10:

- (a) It is intended that each installment of the payments and benefits provided under Section 10 shall be treated as a separate "payment" for purposes of Section 409A. Neither the Company nor you shall have the right to accelerate or defer the delivery of any such payments or benefits except to the extent specifically permitted or required by Section 409A.

- (b) If, as of the date of your "separation from service" with the Company, you are not a "specified employee" (each within the meaning of Section 409A), then each installment of the payments and benefits shall be made on the dates and terms set forth in Section I 0; and
- (c) If, as of the date of your "separation from service" with the Company, you are a "specified employee" (each, for purposes of this Agreement, within the meaning of Section 409A), then:
 - (iii) Each installment of the payments and benefits due under Section 10 that, in accordance with the dates and terms set forth herein, will in all circumstances, regardless of when the separation from service occurs, be paid within the short term deferral period (as defined for the purposes of Section 409A) shall be treated as a short-term deferral within the meaning of Treasury Regulation Section 1.409A-1(b)(4) to the maximum extent permissible under Section 409A; and
 - (iv) Each installment of the payments and benefits due under Section 10 that is not paid within the short-term deferral period or otherwise cannot be treated as a short-term deferral within the meaning of Treasury Regulation Section 1.409A 1(b)(4) and that would, absent this subsection, be paid within the six-month period following your "separation from service" with the Company shall not be paid until the date that is six months and one day after such separation from service (or, if earlier, upon your death), with any such installments that are required to be delayed being accumulated during the six-month period and paid in a lump sum on the date that is six months and one day following your separation from service and any subsequent installments, if any, being paid in accordance with the dates and terms set forth herein; provided, however, that the preceding provisions of this sentence shall not apply to any installment of payments if and to the maximum extent that that such installment is deemed to be paid under a separation pay plan that does not provide for a deferral of compensation by reason of the application of Treasury Regulation 1.409A 1(b)(9)(iii) (relating to separation pay upon an involuntary separation from service). Any installments that qualify for the exception under Treasury Regulation Section 1.409A-1(b)(9)(iii) must be paid no later than the last day of the second taxable year following the taxable year in which your separation from service occurs.

13. Section 409A of the Code. This Agreement is intended to comply with the provisions of Section 409A and this Agreement shall, to the extent practicable, be construed in accordance therewith. Terms used in this Agreement shall have the meanings given such terms under Section 409A if and to the extent required in order to comply with Section 409A. Notwithstanding the foregoing, to the extent that this Agreement or any payment or benefit hereunder shall be deemed not to comply with Section 409A, then neither the Company, the Board of Directors nor its or their designees or agents shall be liable to you or any other person for any actions, decisions or determinations made in good faith.

14. Other Agreements. You represent and warrant to the Company that you are not bound by any agreement with a previous employer or other party which you would in any way violate by accepting employment with the Company or performing your duties as an employee of the Company. You further represent and warrant that, in the performance of your duties with the Company, you will not utilize or disclose any confidential information in breach of an agreement with a previous employer or any other party.

15. Assignment. This Agreement is personal in nature and neither of the parties hereto shall, without the written consent of the other, assign or otherwise transfer this Agreement or its obligations, duties and rights under this Agreement; provided, however, that in the event of the merger, consolidation, transfer or sale of all or substantially all of the assets of the Company, this Agreement shall, subject to the provisions hereof, be binding upon and inure to the benefit of such successor and such successor shall discharge and perform all of the promises, covenants, duties and obligations of the Company hereunder.

16. General.

- (a) Entire Agreement; Modification. This Agreement along with the other agreements and Plan referenced herein contain the entire agreement of the parties relating to the subject matter hereof,

and the parties hereto have made no agreements, representations or warranties relating to the subject matter of this Agreement that are not set forth otherwise herein (or in the other documents referenced herein). This Agreement, along with the other agreements and Plans referenced herein, supersede any and all prior agreements, written or oral, between you and the Company. No modification of this Agreement shall be valid unless made in writing and signed by the parties hereto.

- (b) *Severable Provisions.* The provisions of this Agreement are severable and if any one or more provisions may be determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions of this Agreement shall nevertheless be binding and enforceable. Notwithstanding the foregoing, if there are any conflicts between the terms of this Agreement and the terms of any Plan document referred to in this Agreement, then the terms of this Agreement shall govern and control. Except as modified hereby, this Agreement shall remain unmodified and in full force and effect.
- (c) *Governing Law.* This Agreement shall be governed by and interpreted in accordance with the laws of the Commonwealth of Massachusetts, without regard to the conflict of laws provisions hereof.
- (d) *Notices.* All notices shall be in writing and shall be delivered personally (including by courier), sent by facsimile transmission (with appropriate documented receipt thereof), by overnight receipted courier service (such as UPS or Federal Express) or sent by certified, registered or express mail, postage prepaid, to the Company at the following address: General Counsel, Sonus Networks, Inc., 4 Technology Park Drive, Westford, MA 01886, and to you at the most current address we have in your employment file. Any such notice shall be deemed given when so delivered personally, or if sent by facsimile transmission, when transmitted, or, if by certified, registered or express mail, postage prepaid mailed, forty-eight (48) hours after the date of deposit in the mail. Any party may, by notice given in accordance with this paragraph to the other party, designate another address or person for receipt of notices hereunder.
- (e) *Counterparts.* This Agreement may be executed in more than one counterpart, each of which shall be deemed to be an original, and all such counterparts together shall constitute one and the same instrument.

You may accept this offer of employment and the terms and conditions thereof by confirming your acceptance in writing by August 29, 2011. Please send your signed letter to the Company, or via e-mail to kharris@sonusnet.com. We are enthusiastic about you joining us, and believe that our technical and business goals will provide every opportunity for you to achieve your personal and professional objectives.

Tony, I am looking forward to your joining the team to help us take Sonus to the next level.

Very truly yours,

/s/ Ray Dolan

Ray Dolan
Chief Executive Officer

Accepted by:

/s/ Anthony Scarfo 8/25/11
Anthony Scarfo Date

Sonus Networks, Inc.
4 Technology Park Drive
Westford, MA 01886

February 15, 2013

Mr. Anthony Scarfo
By *electronic delivery*

Dear Tony:

In recognition of your contributions to the Company and to give you piece of mind during this time of consolidation in our industry, this letter amends the terms of your employment letter, dated August 18, 2011 (the "Agreement"), to provide you with additional terms relating to your eligibility for severance.

Section 10 of the Agreement shall be replaced with the following and the Company will provide you with the following Acquisition (as defined below) and/or severance and post-termination benefits:

10. Termination and Eligibility for Severance. Upon any termination of your employment (the "Date of Termination"), you will be paid (i) any and all earned and unpaid portion of your Base Salary through the Date of Termination; (ii) any accrued but unused vacation pay owed to you in accordance with Company practices up to and including the Date of Termination; and (iii) any allowable and unreimbursed business expenses incurred through the Date of Termination that are supported by appropriate documentation in accordance with the Company's policies. Hereafter, items (i) through (iii) in this Section 10 are referred to as "Accrued Benefits." If the Company terminates your employment for Cause (as defined below) or you terminate your employment without Good Reason (as defined below), you will be entitled to receive only the Accrued Benefits.

In the event of an Acquisition, (i) 50% of all unvested options will vest immediately upon the date of Acquisition, and the remaining unvested options will continue to vest according to their terms; (ii) if such Acquisition occurs during the performance period, any unvested performance shares will vest as follows: (y) 50% of such will vest immediately upon the date of Acquisition and (z) subject to your continued employment with the Company or a successor entity, 16.667% of such shares will vest on each of the first, second and third anniversaries of the date of Acquisition; and (iii) if such Acquisition occurs after the performance period, 50% of all unvested restricted shares will vest immediately upon the date of Acquisition and the remaining unvested restricted shares will continue to vest according to their terms.

If the Company terminates your employment without Cause or if you terminate your employment with Good Reason (as defined below) and, in either case, subject to the additional conditions of this Agreement, the Company will provide you the following severance and related post-termination benefits:

- (a) The Company will continue to pay your then-current Base Salary, less applicable state and federal withholdings, in accordance with the Company's usual payroll practices, for a period of twelve (12) months following the Date of Termination; unless the termination follows an Acquisition, in which case the Company will pay you your then-current Base Salary, less applicable state and federal withholdings, in accordance with the Company's usual payroll practices, for a period of eighteen (18) months;
- (b) The Company will pay your then-current annual Target Bonus at 100% of target, less applicable state and federal withholdings, in a lump sum in accordance with Section 10(f) below, unless the termination follows an Acquisition, in which case such payment will be 150% of your then-current annual Target Bonus at target;
- (c) The Company will continue to pay the Company's share of medical, dental and vision insurance premiums for you and your dependents for the twelve (12) month period following the termination of your employment; provided, that if immediately prior to the termination of your employment you were required

to contribute towards the cost of premiums as a condition of receiving such insurance, you may be required to continue contributing towards the cost of such premiums under the same terms and conditions as applied to you and your dependents immediately prior to the termination of your employment in order to receive such continued insurance coverage; unless the termination follows an Acquisition, in which case the Company will continue to pay such premiums for you and your dependents for an eighteen (18) month period following the termination of your employment;

- (d) Any options that are unvested as of the termination date and that would vest during the twelve (12) months following your termination will accelerate and immediately vest and become exercisable upon termination, in accordance with the terms of the applicable stock option agreement; provided that if your termination occurs in contemplation of, upon or after an Acquisition, then all unvested options at that time will fully accelerate and immediately vest on the Date of Termination; and all options vesting pursuant to this Section 10(d) will remain outstanding and exercisable for the shorter of three (3) years from the Date of Termination or the original remaining life of the options;
- (e) Any restricted shares that are unvested as of the termination date and that would vest during the twelve (12) months following your termination will accelerate and immediately vest upon termination and such shares will be freely marketable; provided that if your termination occurs in contemplation of, upon or after an Acquisition, then all unvested restricted shares at that time will fully accelerate, immediately vest upon termination and be freely marketable; and
- (f) If the Company terminates your employment for any reason other than Cause, or your employment terminates due to your death or Disability, and such termination occurs during the performance period, any unvested performance shares that were granted to you will vest as follows: (i) 25% of such shares will vest immediately on the termination date; and (ii) the remainder of such shares will vest as restricted shares pursuant to the vesting schedule set forth in Section 10(e) above.
- (g) The Company's provision of the benefits described in Sections 10(a) through 10(f) above will be contingent upon your execution of a release of all claims of any kind or nature in favor of the Company in a form to be provided by the Company (the "Release Agreement"). You will have twenty-one (21) days following your receipt of the Release Agreement to consider whether or not to accept it. If the Release Agreement is signed and delivered by you to the Company, you will have seven (7) days from the date of delivery to revoke your acceptance of such agreement. The payments described in Sections 10(a) and 10(b) above shall be made on the Company's regular payroll schedule, commencing on the eighth (8th) day following the delivery of the executed Release Agreement to the Company, provided that you have not revoked the Release Agreement; the payment described in Section 10(b) above shall be made simultaneously with the first payment made pursuant to Section 10(a). The Company shall have no further obligation to you in the event your employment with the Company terminates at any time, other than those obligations specifically set forth in this Section 10.
- (h) The Company may terminate your employment at any time with or without Cause by written notice to you specifying the date of termination. You may terminate your employment with or without Good Reason by providing written notice to the Company at least thirty (30) days prior to the date of termination, specifying the basis for your claim of Good Reason. If you seek to terminate your employment for Good Reason, the Company will have ten (10) days following its receipt of written notice of termination to cure the circumstance giving rise to Good Reason. Upon a termination for Cause by the Company or upon a termination without Good Reason, you will be entitled to accrued but unpaid Base Salary and benefits through the date of termination only.
- (i) Definitions:
 - (i) An "Acquisition" as used in this Agreement will mean any of the following: (A) any "person," as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (other than the Company or its affiliates), is or becomes the "beneficial

owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such person any securities acquired directly from the Company or you) representing fifty percent (50%) or more of the combined voting power of the Company’s then outstanding securities; (B) in the event that the individuals who as of the date hereof constitute the Board, and any new director whose election by the Board or nomination for election by the Company’s stockholders was approved by a vote of at least a majority of the Board then still in office who either were members of the Board as of the date hereof or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority thereof; (C) the consummation of a merger or consolidation of the Company with or the sale of the Company to any other entity and, in connection with such merger, consolidation or sale, individuals who constitute the Board immediately prior to the time any agreement to effect such merger or consolidation is entered into fail for any reason to constitute at least a majority of the board of directors of the surviving/purchasing or acquiring entity following the consummation of such merger, consolidation or sale; (D) the stockholders of the Company approve a plan of complete liquidation of the Company; or (E) the consummation of the sale or disposition by the Company of all or substantially all of the Company’s assets to an entity not controlled by the Company. An Acquisition shall constitute a change in control within the meaning of Section 409A.

- (ii) “*Disability*” means an illness (mental or physical) or accident, which results in you being unable to perform your duties as an employee of the Company for a period of one hundred eighty (180) days, whether or not consecutive, in any twelve (12) month period.
- (iii) “*Good Reason*” means (A) a material breach of this Agreement by the Company, which breach is not cured by the Company within ten (10) days following receipt of written notice thereof from you; provided, however, that the Company may only utilize its cure right two (2) times hereunder; (B) a reduction in your then annual Base Salary without your approval; or (C) the assignment to you of a lower position in the organization in terms of your title or responsibility, without your approval.

This letter agreement will be considered effective the date of your acceptance of the terms hereof. Except as modified by the terms of this letter, the terms of the Agreement will remain in full force and effect. Capitalized terms not defined in this letter have the same definitions given to them in the Agreement.

Very truly yours,

/s/ Raymond P. Dolan

Raymond P. Dolan
President and Chief Executive Officer

ACCEPTED:

/s/ Anthony Scarfo
Anthony Scarfo

2/15/13
Date

Mr. Anthony Scarfo
By *electronic delivery*

Dear Tony:

Based on your desire to demonstrate your support for Sonus Networks, Inc. (the "Company") and its prospects, the Compensation Committee has considered and will agree to your request to forgo the payment of your cash bonus for 2013 and, if any such bonus would have been earned, to instead accept a grant of shares of the Company's common stock.

The August 18, 2011 employment agreement, as amended (your "Agreement"), outlining the terms and conditions of your employment by the Company is hereby amended as follows:

1. You have elected to receive your fiscal year 2013 bonus ("2013 Bonus"), if any is earned, in the form of shares of the Company's common stock ("2013 Bonus Shares"), which will be granted and have the terms described below:
 - a. The number of 2013 Bonus Shares granted will equal 1.5 times your actual 2013 Bonus earned, which bonus shall be determined by the Compensation Committee in its sole discretion subject to the terms of the 2013 bonus program, divided by the closing price of the Company's shares on the date of grant.
 - b. The 2013 Bonus Shares will be granted and vest in full on the grant date, which shall be concurrent with the timing of normal 2013 bonus payouts.

Notwithstanding any provisions in your employment agreement, as amended, you must remain an employee of the Company on the grant date in order to receive the 2013 Bonus Shares (if earned). The parties hereby acknowledge that the Compensation Committee retains the right, in its sole discretion, to pay your 2013 Bonus in cash pursuant to the terms of your Agreement as opposed to payment in 2013 Bonus Shares; provided that, if the Company is the subject of an acquisition or change of control prior to the grant date, if the Compensation Committee of the Company (or its successor) elects to pay the 2013 Bonus, if any, in cash, such cash payment will equal 1.5 times your actual 2013 Bonus earned, if any.

Except as modified by the terms of this letter agreement, the terms of your employment, including without limitation, the terms reflected in the Agreement and all Company plans, programs and policies, will remain unaltered and in full force and effect. Capitalized terms not defined in this letter have the same definitions given to them in the Agreement.

Very truly yours,

/s/ Raymond P. Dolan

Raymond P. Dolan
President and Chief Executive Officer

ACCEPTED:

/s/ Anthony Scarfo

03/28/2013

Anthony Scarfo

Date

**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: May 2, 2013

/s/ Raymond P. Dolan

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

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

I, Maurice L. Castonguay, 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: May 2, 2013

/s/ Maurice L. Castonguay

Maurice L. Castonguay
Senior Vice President and Chief Financial Officer (Principal Financial Officer)

**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 29, 2013 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: May 2, 2013

/s/ Raymond P. Dolan

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

**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 29, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Maurice L. Castonguay, Senior Vice President and 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: May 2, 2013

/s/ Maurice L. Castonguay

Maurice L. Castonguay
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)