



ribbon[™]
communications

Third Quarter 2017 Financial Results

October 30, 2017

Cautionary Note Regarding Forward-Looking Statements

This presentation 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 presentation, including statements regarding future results of operations and financial position, integration efforts and opportunities, business strategy, strategic position, 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”, “expectations”, “intends”, “may”, “plans”, “seeks”, “projects” and other similar language, whether in the negative or affirmative, are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words.

On May 23, 2017, Sonus and GENBAND announced entry into an Agreement and Plan of Merger, dated May 23, 2017, under which the companies would combine in a merger of equals transaction (the “Transaction”). Effective October 27, 2017, the Transaction was completed and each of Sonus and GENBAND became subsidiaries of Sonus Networks. For more information, please see each of Sonus Networks’ and Sonus’ latest annual, quarterly and current reports on Forms 10-K, 10-Q and 8-K, as the case may be, and the joint proxy statement/prospectus filed by Sonus Networks with the SEC on September 22, 2017 in connection with the Transaction.

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. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, our success integrating the respective businesses of Sonus and GENBAND; achievement of the anticipated synergies of the Transaction; our ability to realize the benefits from the Transaction; the effects of disruption from the Transaction, making it more difficult to maintain relationships with employees, customers, business partners or government entities; the timing of customer purchasing decisions and our recognition of revenues; economic conditions; our ability to recruit and retain key personnel; difficulties supporting our strategic focus on channel sales; difficulties retaining and expanding our customer base; difficulties leveraging market opportunities; the impact of restructuring and cost-containment activities; litigation; actions taken by significant stockholders; difficulties providing solutions that meet the needs of customers; market acceptance of our products and services; rapid technological and market change; our ability to protect our intellectual property rights; our ability to maintain partner, reseller, distribution and vendor support and supply relationships; higher risks in international operations and markets; the impact of increased competition; currency fluctuations; changes in the market price of our common stock; and/or failure or circumvention of our controls and procedures. Additional information about these and other important factors that could cause actual results to differ materially from those in these forward-looking statements is contained in the SEC reports referred to above.

Our forward-looking 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 caution you against relying on any of these forward-looking statements. Any forward-looking statement made by us in this presentation speaks only as of the date of this presentation. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise.

References to Sonus Networks, Inc. (“Sonus Networks”) relate to a Delaware holding company that was previously named Solstice Sapphire Investments, Inc., which was formed for the purpose of effecting the Transaction. References to Sonus relate to Sonus, Inc., which was previously known as Sonus Networks, Inc. and is now the operating company of Sonus Networks. References to GENBAND relate to GENBAND Holdings Company. Sonus Networks, Inc. is registered to do business as Ribbon Communications in various jurisdictions and expects to formally change its legal name to Ribbon Communications Inc. by the end of 2017.

Sonus Q3'17 Results vs. Guidance

	Q317 Results	Q317 Guidance ²
Total Revenue	\$74.6M	\$70M to \$72M
Non-GAAP Gross Margin ¹	75.6%	Not provided
Non-GAAP Opex ¹	\$43.0M	Not provided
GAAP income per share	\$0.07	\$0.05 to \$0.08
Non-GAAP income per share ¹	\$0.26	\$0.17 to \$0.20
Basic Shares	49.8M	49.8M
Diluted Shares	50.1M	50.2M
Cash and Investments	\$131.6M	Not provided

1) Non-GAAP financial measures; please see reconciliation in presentation appendix.

2) Guidance as provided by Sonus on 08/03/17.

Sonus Condensed non-GAAP Statements of Operations¹

Condensed non-GAAP P&L

Millions (except per share amounts & GM%)

	Actual Q3'17	Actual Q2'17	Actual Q1'17	Actual FY'16	Actual Q4'16	Actual Q3'16	Actual Q2'16	Actual Q1'16	Actual FY'15	Actual Q4'15	Actual Q3'15	Actual Q2'15	Actual Q1'15
Product Revenue	\$ 44.1	\$ 28.8	\$ 25.4	\$ 146.4	\$ 37.7	\$ 38.6	\$ 35.3	\$ 34.8	\$ 141.9	\$ 47.8	\$ 42.2	\$ 27.0	\$ 24.9
Service Revenue	30.5	26.9	28.0	106.2	29.9	26.4	25.5	24.4	107.1	28.5	25.6	27.7	25.3
Total Revenue	74.6	55.7	53.4	252.6	67.6	65.0	60.8	59.2	249.0	76.3	67.9	54.7	50.1
Gross Margin	56.4	38.4	35.7	175.3	47.3	45.5	42.1	40.4	168.9	54.5	47.5	36.1	30.9
<i>Gross Margin %</i>	75.6%	68.8%	67.0%	69.4%	70.0%	69.9%	69.2%	68.4%	67.8%	71.4%	70.0%	65.9%	61.5%
OPEX	43.0	39.3	40.4	157.2	42.4	39.0	37.8	38.0	168.4	42.6	41.4	40.9	43.5
Income/(Loss) from Operations	13.4	(1.0)	(4.6)	18.2	4.9	6.4	4.3	2.5	0.5	11.8	6.1	(4.8)	(12.6)
Net Income/(Loss)	\$ 13.0	\$ (1.2)	\$ (4.5)	\$ 16.5	\$ 4.5	\$ 6.2	\$ 4.1	\$ 1.7	\$ (1.1)	\$ 11.6	\$ 5.6	\$ (5.1)	\$ (13.1)
Diluted EPS	\$ 0.26	\$ (0.02)	\$ (0.09)	\$ 0.33	\$ 0.09	\$ 0.12	\$ 0.08	\$ 0.03	\$ (0.02)	\$ 0.23	\$ 0.11	\$ (0.10)	\$ (0.27)
Diluted Shares	50.1	49.5	49.1	49.7	49.5	49.9	50.0	49.7	49.6	49.9	49.7	49.5	49.4
Adjusted EBITDA	15.1	0.8	(2.8)	26.1	7.0	8.4	6.3	4.5	11.8	14.1	8.6	(0.8)	(10.1)
<i>Adjusted EBITDA %</i>	20.2%	1.4%	-5.3%	10.3%	10.3%	12.9%	10.4%	7.5%	4.7%	18.5%	12.6%	-1.5%	-20.1%

1) Please see reconciliations in presentation appendix.

Sonus Condensed Balance Sheets

Condensed Balance Sheet	Actual Q3'17	Actual Q2'17	Actual Q1'17	Actual Q4'16	Actual Q3'16	Actual Q2'16	Actual Q1'16	Actual Q4'15	Actual Q3'15	Actual Q2'15	Actual Q1'15
\$M											
ASSETS											
Cash & Investments ¹	\$ 131.6	\$ 125.9	\$ 128.8	\$ 126.1	\$ 121.0	\$ 142.7	\$ 142.4	\$ 142.2	\$ 126.9	\$ 113.5	\$ 112.8
Accounts Receivable, Net	51.6	42.7	39.6	53.9	44.2	36.9	34.4	51.5	51.3	48.7	55.6
Inventory, Net	16.3	16.8	17.7	18.3	20.8	20.7	22.5	23.1	24.2	25.7	25.1
Property Plant Equipment, Net	9.7	10.7	11.0	11.7	13.1	12.4	12.7	13.6	14.8	15.5	18.3
Goodwill & Intangibles	73.2	75.5	77.8	79.6	90.9	62.7	64.5	66.4	68.5	70.3	71.9
Other Assets	20.0	20.8	19.5	18.5	19.9	20.7	21.4	16.1	19.5	21.7	20.3
Total Assets	\$ 302.4	\$ 292.4	\$ 294.4	\$ 308.1	\$ 309.9	\$ 296.1	\$ 297.9	\$ 312.9	\$ 305.2	\$ 295.4	\$ 304.0
LIABILITIES & EQUITY											
Liabilities	\$ 36.9	\$ 30.6	\$ 27.8	\$ 38.3	\$ 42.8	\$ 30.6	\$ 28.0	\$ 43.8	\$ 41.4	\$ 33.4	\$ 34.2
Deferred Revenues	55.0	58.8	54.6	50.7	46.4	45.4	48.3	46.1	48.3	49.5	48.6
Stockholders Equity	210.6	203.0	212.0	219.1	220.7	220.1	221.6	223.0	215.5	212.5	221.2
Total Liabilities and Equity	\$ 302.4	\$ 292.4	\$ 294.4	\$ 308.1	\$ 309.9	\$ 296.1	\$ 297.9	\$ 312.9	\$ 305.2	\$ 295.4	\$ 304.0
DSO	62	69	67	74	61	54	52	61	68	80	100

1) Includes cash, cash equivalents and short & long term investments.

Sonus Condensed Statements of Cash Flows

Condensed Cash Flow	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual
SM	Q3'17	Q2'17	Q1'17	FY'16	Q4'16	Q3'16	Q2'16	Q1'16	FY'15	Q4'15	Q3'15	Q2'15	Q1'15
Cash from Operations	\$ 6.2	\$ (0.8)	\$ 3.6	\$ 19.2	\$ 9.1	\$ 0.8	\$ 5.9	\$ 3.3	\$ 19.9	\$ 18.2	\$ 16.0	\$ 3.2	\$ (17.5)
Purchases of PP&E	(0.7)	(1.6)	(1.0)	(4.6)	(1.0)	(1.0)	(1.7)	(1.0)	(7.8)	(1.4)	(1.9)	(2.0)	(2.5)
Stock Buyback	-	-	-	(9.5)	(2.4)	(2.2)	(3.5)	(1.5)	(7.9)	(1.8)	0.0	-	(6.1)
Business Acquisitions	-	-	-	(20.7)	-	(19.9)	-	(0.8)	(10.9)	-	(0.8)	-	(10.1)
Other	0.1	(0.5)	0.1	(0.5)	(0.6)	0.5	(0.4)	(0.0)	1.0	0.4	0.1	(0.5)	1.1
Net Change	\$ 5.6	\$ (2.9)	\$ 2.7	\$ (16.1)	\$ 5.1	\$ (21.7)	\$ 0.3	\$ 0.1	\$ (5.8)	\$ 15.3	\$ 13.4	\$ 0.7	\$ (35.2)
Cash ¹ Beg of Period	\$ 125.9	\$ 128.8	\$ 126.1	\$ 142.2	\$ 121.0	\$ 142.7	\$ 142.4	\$ 142.2	\$ 148.0	\$ 126.9	\$ 113.5	\$ 112.8	\$ 148.0
Cash ¹ End of Period	\$ 131.6	\$ 125.9	\$ 128.8	\$ 126.1	\$ 126.1	\$ 121.0	\$ 142.7	\$ 142.4	\$ 142.2	\$ 142.2	\$ 126.9	\$ 113.5	\$ 112.8

1) Includes cash, cash equivalents and short & long term investments.

Sonus Key Stats

(\$000's)	Q317	Q217	Q117	FY16	Q416	Q316	Q216	Q116	FY15	Q415	Q315	Q215	Q115
Revenue													
Product	44,120	28,790	25,395	146,381	37,662	38,601	35,349	34,769	141,913	47,776	42,230	27,042	24,865
Services	30,509	26,943	27,973	106,210	29,910	26,410	25,508	24,382	107,121	28,550	25,632	27,659	25,280
Total Revenue	74,629	55,733	53,368	252,591	67,572	65,011	60,857	59,151	249,034	76,326	67,862	54,701	50,145
% of Total Revenue	Q317	Q217	Q117	FY16	Q416	Q316	Q216	Q116	FY15	Q415	Q315	Q215	Q115
Revenue													
Product	59%	52%	48%	58%	56%	59%	58%	59%	57%	63%	62%	49%	50%
Services	41%	48%	52%	42%	44%	41%	42%	41%	43%	37%	38%	51%	50%
Revenue by Geography													
Domestic	75%	69%	67%	69%	68%	70%	70%	68%	71%	70%	77%	71%	62%
International	25%	31%	33%	31%	32%	30%	30%	32%	29%	30%	23%	29%	38%
% of Total Revenue	Q317	Q217	Q117	FY16	Q416	Q316	Q216	Q116	FY15	Q415	Q315	Q215	Q115
Revenue by Channel													
Direct	76%	70%	66%	74%	75%	68%	75%	79%	76%	75%	78%	74%	76%
Indirect	24%	30%	34%	26%	25%	32%	25%	21%	24%	25%	22%	26%	24%
Operating Statistics	Q317	Q217	Q117	FY16	Q416	Q316	Q216	Q116	FY15	Q415	Q315	Q215	Q115
10% Customers													
Number of 10% customers	2	2	1	1	1	1	2	2	1	0	3	1	2
Name of 10% customers	Verizon AT&T	Verizon AT&T	Verizon	AT&T	CenturyLink	AT&T	AT&T Verizon	Level 3 AT&T	AT&T	<None>	AT&T Inteliquent CenturyLink	AT&T	Verizon Softbank
5K/7K													
5K/7K/SWe Product Revenue	29,213	12,408	13,235	58,094	12,815	14,415	15,199	15,665	52,780	19,042	14,391	9,638	9,709
5K/7K/SWe as % of Product Revenue	66%	43%	52%	40%	34%	37%	43%	45%	37%	40%	34%	36%	39%
Top 5 Customers as % of Revenue	45%	41%	44%	37%	39%	41%	46%	46%	37%	33%	50%	40%	43%
Enterprise as % of Product Revenue	22%	25%	28%	19%	18%	21%	20%	18%	19%	19%	20%	22%	15%
Number of Total Customers**	786	805	822	*	773	698	691	640	*	698	664	624	695
Number of New Customers**	174	169	160	583	156	145	151	131	623	155	150	150	168

* Not historically provided.

**Customer count reflects end customer and excludes customers with maintenance only revenue of less than \$5k on a quarterly basis.

GENBAND Non-GAAP Historical Financial Results¹

Condensed non-GAAP P&L	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual
Millions (except per share amounts & GM%)	Q3'17	Q2'17	Q1'17	FY'16	Q4'16	Q3'16	Q2'16	Q1'16
Product Revenue	\$ 28.7	\$ 42.6	\$ 34.8	\$ 195.2	\$ 57.5	\$ 48.7	\$ 49.7	\$ 39.3
Service Revenue	55.6	56.4	51.4	231.9	66.2	55.9	56.0	53.8
Total Revenue	84.3	99.0	86.2	427.1	123.7	104.6	105.7	93.1
Gross Margin	47.1	48.6	40.8	217.1	63.0	56.0	53.1	45.0
<i>Gross Margin %</i>	55.8%	49.1%	47.4%	50.8%	50.9%	53.6%	50.2%	48.4%
OPEX	43.3	44.9	50.4	205.7	53.5	49.4	50.5	52.4
Income/(Loss) from Operations	3.8	3.7	(9.6)	11.4	9.5	6.6	2.6	(7.3)
Net Income/(Loss)	\$ (0.2)	\$ (0.3)	\$ (11.0)	\$ 2.1	\$ 10.2	\$ 2.8	\$ 2.3	\$ (13.2)
Adjusted EBITDA	6.2	6.3	(7.1)	23.6	12.8	9.4	5.6	(4.2)
<i>Adjusted EBITDA %</i>	7.3%	6.4%	-8.2%	5.5%	10.3%	9.0%	5.3%	-4.5%

1) For informational purposes only and not included in Sonus' historical financial results as the Sonus/GENBAND merger closed on October 27, 2017.

Sonus Stand-Alone Projections Q4'17 and FY'17 Excludes Impact of the Merger with GENBAND¹

	Q417 Guidance	FY17 Guidance
Total Revenue	\$69M	\$252.6M
Non-GAAP Gross Margin	72%	71%
Non-GAAP net income	\$5.8M	\$13M ²
Adjusted EBITDA ³	\$8.1M	\$21.2M

1) Sonus/GENBAND merger closed on 10/27/2017.

2) Equates to \$0.26 Non-GAAP income per share assuming 50M diluted shares, which excludes the impact of the shares granted on 10/27/2017 in connection with the merger.

3) Calculated as non-GAAP operating income less depreciation expense.

We are unable to provide a reconciliation of the forward-looking non-GAAP measures presented above to the most directly comparable GAAP measures without unreasonable efforts due to our inability at this time to estimate the amount and timing of charges (including acquisition-related, restructuring, merger integration and stock compensation charges) to be incurred during the remainder of the year as a result of the Sonus/GENBAND merger, which was completed on October 27, 2017. We are also unable at this time to estimate the impact of purchase accounting reductions affecting GENBAND revenues.

GENBAND Stand-Alone Projections Q4'17 and FY'17

Excludes Impact of the Merger with Sonus¹

	Q417 Guidance	FY17 Guidance
Total Revenue	\$106M to \$120M	\$375M to \$390M
Non-GAAP Gross Margin	55% to 56%	51% to 52%
Non-GAAP net (loss) income	\$1M to \$10M	(\$10M) to (\$1M)
Adjusted EBITDA ²	\$12M to \$21M	\$17M to \$26M

- 1) Sonus/GENBAND merger closed on 10/27/2017.
- 2) Calculated as non-GAAP operating income less depreciation expense.

We are unable to provide a reconciliation of the forward-looking non-GAAP measures presented above to the most directly comparable GAAP measures without unreasonable efforts due to our inability at this time to estimate the amount and timing of charges (including acquisition-related, restructuring, merger integration and stock compensation charges) to be incurred during the remainder of the year as a result of the Sonus/GENBAND merger, which was completed on October 27, 2017. We are also unable at this time to estimate the impact of purchase accounting reductions affecting GENBAND revenues.

FY'17 Pro Forma (Sonus & GENBAND Combined)

Assumes mid-point of projections excluding purchase accounting

\$ Millions	FY'17 Sonus	FY'17 GENBAND	FY'17 Combined
Revenue	\$ 252.6	\$ 382.5	\$ 635.1
Non-GAAP Gross Margin	71%	51.5%	58.0%
Adjusted non-GAAP EBITDA	\$ 21.0	\$ 21.5	\$ 42.5

The sum of the parts gets us halfway home & synergies get us to our goal of \$100M Adjusted non-GAAP EBITDA goal for 2018.

Figures above are stand alone FY'17 projections for each company added together. This assumes no benefit of Q4'17 restructuring activities nor does it take into account the impact of any purchase accounting adjustments. These values are for informational purposes only to provide clarity on stand alone business sizing.

We are unable to provide a reconciliation of the forward-looking non-GAAP measures presented above to the most directly comparable GAAP measures without unreasonable efforts due to our inability at this time to estimate the amount and timing of charges (including acquisition-related, restructuring, merger integration and stock compensation charges) to be incurred during the remainder of the year as a result of the Sonus/GENBAND merger, which was completed on October 27, 2017. We are also unable at this time to estimate the impact of purchase accounting reductions affecting GENBAND revenues.

FY'17 Guidance (Sonus & GENBAND Combined)

	Sonus 01/01/2017- 12/31/2017	GENBAND¹ 10/30/2017-12/31/2017 (2 month stub period)	Restructuring 10/30/2017 to 12/31/2017	Combined FY'17
Total Revenue excluding impact of purchase accounting	\$252.6M ²	\$80M ³ to \$90M ³		\$332.6M ³ to \$342.6M ³
Non-GAAP Diluted earnings per share	\$0.22	\$0.15 to \$0.24	\$0.04	\$0.41 to \$0.50
Diluted Shares ⁴	59.1M	59.1M	59.1M	59.1M

- 1) Projections are post close from 10/30/2017 to 12/31/2017 for GENBAND.
- 2) Flat from FY'16 revenue for Sonus of \$252.6M
- 3) Revenue does not include impact of purchase accounting reductions, which are expected to be completed in Q4'17.
- 4) Share count increased from prior projections due to ~51M shares being issued on 10/30/2017 related to the Sonus/GENBAND merger.

We are unable to provide a reconciliation of the forward-looking non-GAAP measures presented above to the most directly comparable GAAP measures without unreasonable efforts due to our inability at this time to estimate the amount and timing of charges (including acquisition-related, restructuring, merger integration and stock compensation charges) to be incurred during the remainder of the year as a result of the Sonus/GENBAND merger, which was completed on October 27, 2017. We are also unable at this time to estimate the impact of purchase accounting reductions affecting GENBAND revenues.

APPENDIX



Discussion of Non-GAAP Financial Measures

Sonus management uses several different financial measures, both GAAP and non-GAAP, in analyzing and assessing the overall performance of the business, making operating decisions, planning and forecasting future periods, and determining payments under compensation programs. Our annual financial plan is prepared both on a GAAP and non-GAAP basis, and the non-GAAP annual financial plan is approved by our board of directors. Continuous budgeting and forecasting for revenue and expenses are conducted on a non-GAAP basis (in addition to GAAP) and actual results on a non-GAAP basis are assessed against the annual financial plan. We consider the use of non-GAAP financial measures helpful in assessing the core performance of our continuing operations and liquidity, and when planning and forecasting future periods. By continuing operations, we mean the ongoing results of the business excluding certain expenses and credits, including, but not limited to: stock-based compensation, amortization of intangible assets, merger integration expense, settlement expense, depreciation expense for an abandoned facility, acquisition-related expense, restructuring and certain gains included in other income (expense). While our management uses non-GAAP financial measures as a tool to enhance their understanding of certain aspects of our financial performance, our management does not consider these measures to be a substitute for, or superior to, GAAP measures. In addition, our presentations of these measures may not be comparable to similarly titled measures used by other companies. These non-GAAP financial measures should not be considered alternatives for, or in isolation from, the financial information prepared and presented in accordance with GAAP.

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

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

Discussion of Non-GAAP Financial Measures (continued)

We exclude the amortization of acquired intangible assets from non-GAAP expense and income measures. These amortization amounts are inconsistent in frequency and amount and are significantly impacted by the timing and size of acquisitions. Although we exclude amortization of acquired intangible assets from our non-GAAP expenses, we believe that it is important for investors to understand that intangible assets contribute to revenue generation. We believe that excluding the non-cash amortization of intangible assets facilitates the comparison of our financial results to our historical operating results and to other companies in our industry as if the acquired intangible assets had been developed internally rather than acquired.

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

In September 2017, we recorded \$1.6 million of expense related to potential fines in connection with the ongoing SEC investigation. In June 2016, we recorded \$0.6 million of patent litigation settlement costs. These amounts are included as components of General and administrative expense; however, we believe that such settlement costs are not part of our core business or ongoing operations. Accordingly, we believe that excluding these settlement expenses facilitates the comparison of our financial results to our historical operating results and to other companies in our industry.

During the second quarter of 2015, we reached an agreement with the landlord of one of our previously restructured facilities to vacate the facility without penalty or future payments. As a result, we were able to vacate the facility earlier than originally planned. In connection with this settlement, we recorded incremental depreciation expense to account for the change in estimated life of the fixed assets related to this facility. We believe that excluding this incremental depreciation expense facilitates the comparison of our financial results to our historical operating results and to other companies in our industry, as such incremental depreciation expense is not related to our ongoing operations or our core business activities.

Discussion of Non-GAAP Financial Measures (continued)

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

We have recorded restructuring expense to streamline operations and reduce operating costs by closing and consolidating certain facilities and reducing our worldwide workforce. We review our restructuring accruals regularly and record adjustments (both expense and credits) to these estimates as required. We believe that excluding restructuring expense and credits facilitates the comparison of our financial results to our historical operating results and to other companies in our industry, as there are no future revenue streams or other benefits associated with these costs.

In May 2017, we sold a block of IP addresses that we had acquired in connection with our acquisition of Network Equipment Technologies, Inc. ("NET") and recognized a gain, net of commission and fees, of \$0.6 million. In July 2016, we sold the NET domain name to a third party and recognized a gain, net of commission and fees, of \$0.8 million, and in December 2016, we sold a block of IP addresses which we had acquired in connection with our acquisition of Performance Technologies, Incorporated ("PT") and recognized a gain, net of commission and fees, of \$0.5 million. In October 2015, we sold the PT domain name and recognized a gain, net of commission and fees, of \$0.9 million. These amounts are included as components of Other Income, net, in the respective fiscal years. We believe that such gains are not part of our core business or ongoing operations. Accordingly, we believe that excluding the other income arising from these sales facilitates the comparison of our financial results to our historical results and to other companies in our industry.

Discussion of Non-GAAP Financial Measures (continued)

When we originally prepared our outlook for the third quarter of 2017, as provided on August 3, 2017, we anticipated that we would reverse \$0.7 million of deferred tax assets related to net operating loss carryforwards for our subsidiary in Canada based on positive earnings evidence in the subsidiary over a consecutive three-year period. This adjustment would have resulted in an income tax credit and reduced our provision in the reversal period. We did not record this adjustment in the third quarter of 2017, primarily due to our pending merger with GENBAND. We believe that such adjustments are not part of our core business or ongoing operations. Accordingly, we believe that excluding income tax credits arising from the reversal of deferred tax assets facilitates the comparison of our financial results to our historical results and to other companies in our industry.

We use Adjusted EBITDA as a supplemental measure to review and assess our performance. We calculate Adjusted EBITDA by excluding from net income (loss): interest income (expense), net; income tax provision; depreciation and amortization. In addition, we exclude from net income (loss): other income (expense), net; stock-based compensation expense; merger integration expense; settlement expense; acquisition-related expense and restructuring. In general, we add back the expenses that we consider to be non-cash and/or not part of our continuing operations, as described above. Adjusted EBITDA is a non-GAAP financial measure that is used by our investing community for comparative and valuation purposes. We disclose this metric to support and facilitate the dialogue with research analysts and investors. Other companies may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

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

Quarterly GAAP to Non-GAAP Reconciliation

	Q317	Q217	Q117	FY16	Q416	Q316	Q216	Q116	FY15	Q415	Q315	Q215	Q115
GAAP total gross profit	\$ 54,547	\$ 36,402	\$ 33,748	\$ 167,611	\$ 45,394	\$ 43,586	\$ 40,228	\$ 38,403	\$ 161,657	\$ 52,301	\$ 45,712	\$ 34,414	\$ 29,230
Stock-based compensation expense	274	348	416	1,673	429	426	415	403	1,841	448	459	480	454
Amortization of intangible assets	1,601	1,601	1,566	6,038	1,501	1,455	1,455	1,627	5,384	1,717	1,323	1,176	1,168
Non-GAAP total gross profit	<u>\$ 56,422</u>	<u>\$ 38,351</u>	<u>\$ 35,730</u>	<u>\$ 175,322</u>	<u>\$ 47,324</u>	<u>\$ 45,467</u>	<u>\$ 42,098</u>	<u>\$ 40,433</u>	<u>\$ 168,882</u>	<u>\$ 54,466</u>	<u>\$ 47,494</u>	<u>\$ 36,070</u>	<u>\$ 30,852</u>
GAAP total gross margin	73.1%	65.3%	63.2%	66.4%	67.2%	67.0%	66.1%	64.9%	64.9%	68.5%	67.4%	62.9%	58.3%
Stock-based compensation expense	0.4%	0.6%	0.8%	0.7%	0.6%	0.7%	0.7%	0.7%	0.7%	0.6%	0.7%	0.9%	0.9%
Amortization of intangible assets	2.1%	2.9%	3.0%	2.3%	2.2%	2.2%	2.4%	2.8%	2.2%	2.3%	1.9%	2.1%	2.3%
Non-GAAP total gross margin	<u>75.6%</u>	<u>68.8%</u>	<u>67.0%</u>	<u>69.4%</u>	<u>70.0%</u>	<u>69.9%</u>	<u>69.2%</u>	<u>68.4%</u>	<u>67.8%</u>	<u>71.4%</u>	<u>70.0%</u>	<u>65.9%</u>	<u>61.5%</u>
GAAP operating expenses	\$ 50,628	\$ 49,105	\$ 44,530	\$ 181,220	\$ 48,098	\$ 47,902	\$ 42,936	\$ 42,284	\$ 192,874	\$ 48,241	\$ 47,074	\$ 49,463	\$ 48,096
Stock-based compensation expense	(3,613)	(3,889)	(2,847)	(18,095)	(3,875)	(5,982)	(4,226)	(4,012)	(19,858)	(4,349)	(4,814)	(6,329)	(4,366)
Amortization of intangible assets	(692)	(692)	(693)	(1,462)	(506)	(319)	(318)	(319)	(1,723)	(415)	(414)	(415)	(479)
Merger integration expense	(178)	-	-	-	-	-	-	-	-	-	-	-	-
Settlement expense	(1,600)	-	-	(605)	-	-	(605)	-	-	-	-	-	-
Depreciation expense for abandoned facility	-	-	-	-	-	-	-	-	(646)	-	(322)	(324)	-
Acquisition-related expense	(1,543)	(4,679)	(56)	(1,152)	(201)	(951)	-	-	(131)	-	-	(24)	(107)
Restructuring	-	(501)	(570)	(2,740)	(1,120)	(1,620)	-	-	(2,148)	(842)	(158)	(1,487)	339
Non-GAAP operating expenses	<u>\$ 43,002</u>	<u>\$ 39,344</u>	<u>\$ 40,364</u>	<u>\$ 157,166</u>	<u>\$ 42,396</u>	<u>\$ 39,030</u>	<u>\$ 37,787</u>	<u>\$ 37,953</u>	<u>\$ 168,368</u>	<u>\$ 42,635</u>	<u>\$ 41,366</u>	<u>\$ 40,884</u>	<u>\$ 43,483</u>
GAAP income (loss) from operations as a percentage of revenue (operating margin)	5.3%	-22.8%	-20.2%	-5.4%	-4.0%	-6.6%	-4.4%	-6.6%	-12.5%	5.3%	-2.0%	-27.5%	-37.6%
Stock-based compensation expense	5.2%	7.6%	6.1%	7.8%	6.3%	9.8%	7.6%	7.5%	8.5%	6.3%	7.7%	12.5%	9.6%
Amortization of intangible assets	3.1%	4.1%	4.2%	3.0%	3.0%	2.7%	2.9%	3.3%	2.9%	2.8%	2.6%	2.9%	3.3%
Merger integration expense	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Settlement expense	2.1%	0.0%	0.0%	0.2%	0.0%	0.0%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Depreciation expense for abandoned facility	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%	0.0%	0.5%	0.6%	0.0%
Acquisition-related expense	2.1%	8.4%	0.1%	0.5%	0.3%	1.5%	0.0%	0.0%	0.1%	0.0%	0.0%	*	0.2%
Restructuring	0.0%	0.9%	1.1%	1.1%	1.7%	2.5%	0.0%	0.0%	0.9%	1.1%	0.2%	2.7%	-0.7%
Non-GAAP income (loss) from operations as a percentage of revenue (operating margin)	<u>18.0%</u>	<u>-1.8%</u>	<u>-8.7%</u>	<u>7.2%</u>	<u>7.3%</u>	<u>9.9%</u>	<u>7.1%</u>	<u>4.2%</u>	<u>0.2%</u>	<u>15.5%</u>	<u>9.0%</u>	<u>-8.8%</u>	<u>-25.2%</u>

* Less than 0.1% impact on income (loss) from operations as a percentage of revenue

Quarterly GAAP to Non-GAAP Reconciliation (continued)

	Q317	Q217	Q117	FY16	Q416	Q316	Q216	Q116	FY15	Q415	Q315	Q215	Q115
GAAP income (loss) from operations	\$ 3,919	\$ (12,703)	\$ (10,782)	\$ (13,609)	\$ (2,704)	\$ (4,316)	\$ (2,708)	\$ (3,881)	\$ (31,217)	\$ 4,060	\$ (1,362)	\$ (15,049)	\$ (18,866)
Stock-based compensation expense	3,887	4,237	3,263	19,768	4,304	6,408	4,641	4,415	21,699	4,797	5,273	6,809	4,820
Amortization of intangible assets	2,293	2,293	2,259	7,500	2,007	1,774	1,773	1,946	7,107	2,132	1,737	1,591	1,647
Merger integration expense	178	-	-	-	-	-	-	-	-	-	-	-	-
Settlement expense	1,600	-	-	605	-	-	605	-	-	-	-	-	-
Depreciation expense for abandoned facility	-	-	-	-	-	-	-	-	646	-	322	324	-
Acquisition-related expense	1,543	4,679	56	1,152	201	951	-	-	131	-	-	24	107
Restructuring	-	501	570	2,740	1,120	1,620	-	-	2,148	842	158	1,487	(339)
Non-GAAP income (loss) from operations	\$ 13,420	\$ (993)	\$ (4,634)	\$ 18,156	\$ 4,928	\$ 6,437	\$ 4,311	\$ 2,480	\$ 514	\$ 11,831	\$ 6,128	\$ (4,814)	\$ (12,631)
GAAP net income (loss)	\$ 3,453	\$ (12,345)	\$ (10,646)	\$ (13,932)	\$ (2,631)	\$ (3,731)	\$ (2,916)	\$ (4,654)	\$ (31,895)	\$ 4,703	\$ (1,896)	\$ (15,343)	\$ (19,359)
Stock-based compensation expense	3,887	4,237	3,263	19,768	4,304	6,408	4,641	4,415	21,699	4,797	5,273	6,809	4,820
Amortization of intangible assets	2,293	2,293	2,259	7,500	2,007	1,774	1,773	1,946	7,107	2,132	1,737	1,591	1,647
Merger integration expense	178	-	-	-	-	-	-	-	-	-	-	-	-
Settlement expense	1,600	-	-	605	-	-	605	-	-	-	-	-	-
Depreciation expense for abandoned facility	-	-	-	-	-	-	-	-	646	-	322	324	-
Acquisition-related expense	1,543	4,679	56	1,152	201	951	-	-	131	-	-	24	107
Restructuring	-	501	570	2,740	1,120	1,620	-	-	2,148	842	158	1,487	(339)
Gains on sales of domain names and IP address blocks	-	(576)	-	(1,298)	(498)	(800)	-	-	(896)	(896)	-	-	-
Non-GAAP net income (loss)	\$ 12,954	\$ (1,211)	\$ (4,498)	\$ 16,535	\$ 4,503	\$ 6,222	\$ 4,103	\$ 1,707	\$ (1,060)	\$ 11,578	\$ 5,594	\$ (5,108)	\$ (13,124)
GAAP diluted earnings (loss) per share	\$ 0.07	\$ (0.25)	\$ (0.22)	\$ (0.28)	\$ (0.05)	\$ (0.08)	\$ (0.06)	\$ (0.09)	\$ (0.64)	\$ 0.09	\$ (0.04)	\$ (0.31)	\$ (0.39)
Stock-based compensation expense	0.08	0.09	0.07	0.40	0.09	0.13	0.09	0.08	0.45	0.10	0.11	0.14	0.10
Amortization of intangible assets	0.05	0.05	0.05	0.15	0.04	0.04	0.04	0.04	0.14	0.04	0.03	0.03	0.03
Merger integration expense	*	-	-	-	-	-	-	-	-	-	-	-	-
Settlement expense	0.03	-	-	0.01	-	-	0.01	-	-	-	-	-	-
Depreciation expense for abandoned facility	-	-	-	-	-	-	-	-	0.01	-	0.01	0.01	-
Acquisition-related expense	0.03	0.09	*	0.02	*	0.02	-	-	*	-	-	*	*
Restructuring	-	0.01	0.01	0.06	0.02	0.03	-	-	0.04	0.02	*	0.03	(0.01)
Gains on sales of domain names and IP address blocks	-	(0.01)	-	(0.03)	(0.01)	(0.02)	-	-	(0.02)	(0.02)	-	-	-
Non-GAAP diluted earnings (loss) per share	\$ 0.26	\$ (0.02)	\$ (0.09)	\$ 0.33	\$ 0.09	\$ 0.12	\$ 0.08	\$ 0.03	\$ (0.02)	\$ 0.23	\$ 0.11	\$ (0.10)	\$ (0.27)

* Less than \$0.01 impact on income (loss) per share

Quarterly GAAP to Non-GAAP Reconciliation (continued)

	Q317	Q217	Q117	FY16	Q416	Q316	Q216	Q116	FY15	Q415	Q315	Q215	Q115
Adjusted EBITDA													
GAAP net income (loss)	\$ 3,453	\$ (12,345)	\$ (10,646)	\$ (13,932)	\$ (2,631)	\$ (3,731)	\$ (2,916)	\$ (4,654)	\$ (31,895)	\$ 4,703	\$ (1,896)	\$ (15,343)	\$ (19,359)
Interest income/expense	(260)	(254)	(258)	(769)	(179)	(209)	(217)	(164)	(207)	(117)	(82)	20	(28)
Income tax provision	727	471	123	2,516	614	427	435	1,040	2,007	413	749	279	566
Depreciation	1,660	1,772	1,823	7,970	2,056	1,944	1,989	1,981	11,961	2,315	2,744	4,327	2,575
Amortization of intangible assets	2,293	2,293	2,259	7,500	2,007	1,774	1,773	1,946	7,107	2,132	1,737	1,591	1,647
Other income/expense, net	(1)	(575)	(1)	(1,424)	(508)	(803)	(10)	(103)	(1,122)	(939)	(133)	(5)	(45)
Stock-based compensation expense	3,887	4,237	3,263	19,768	4,304	6,408	4,641	4,415	21,699	4,797	5,273	6,809	4,820
Merger integration expense	178	-	-	-	-	-	-	-	-	-	-	-	-
Settlement expense	1,600	-	-	605	-	-	605	-	-	-	-	-	-
Acquisition-related expense	1,543	4,679	56	1,152	201	951	-	-	131	-	-	24	107
Restructuring	-	501	570	2,740	1,120	1,620	-	-	2,148	842	158	1,487	(339)
Adjusted EBITDA (non-GAAP)	<u>\$ 15,080</u>	<u>\$ 779</u>	<u>\$ (2,811)</u>	<u>\$ 26,126</u>	<u>\$ 6,984</u>	<u>\$ 8,381</u>	<u>\$ 6,300</u>	<u>\$ 4,461</u>	<u>\$ 11,829</u>	<u>\$ 14,146</u>	<u>\$ 8,550</u>	<u>\$ (811)</u>	<u>\$ (10,056)</u>
Adjusted EBITDA as a percentage of revenue													
GAAP net income (loss)	4.6%	-22.2%	-19.9%	-5.5%	-3.9%	-5.7%	-4.8%	-7.9%	-12.8%	6.2%	-2.8%	-28.0%	-38.6%
Interest income/expense	-0.3%	-0.5%	-0.5%	-0.3%	-0.3%	-0.3%	-0.4%	-0.3%	-0.1%	-0.2%	-0.1%	*	-0.1%
Income tax provision	1.0%	0.8%	0.2%	1.0%	0.9%	0.7%	0.7%	1.8%	0.8%	0.5%	1.1%	0.5%	1.1%
Depreciation	2.2%	3.2%	3.4%	3.2%	3.0%	3.0%	3.3%	3.3%	4.8%	3.0%	4.0%	7.9%	5.1%
Amortization of intangible assets	3.1%	4.1%	4.2%	3.0%	3.0%	2.7%	2.9%	3.3%	2.9%	2.8%	2.6%	2.9%	3.3%
Other income/expense, net	*	-1.0%	*	-0.6%	-0.8%	-1.2%	*	-0.2%	-0.5%	-1.2%	-0.2%	*	-0.1%
Stock-based compensation expense	5.2%	7.7%	6.1%	7.7%	6.4%	9.7%	7.7%	7.5%	8.6%	6.3%	7.8%	12.5%	9.7%
Merger integration expense	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Settlement expense	2.1%	0.0%	0.0%	0.2%	0.0%	0.0%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Acquisition-related expense	2.1%	8.4%	0.1%	0.5%	0.3%	1.5%	0.0%	0.0%	0.1%	0.0%	0.0%	*	0.2%
Restructuring	0.0%	0.9%	1.1%	1.1%	1.7%	2.5%	0.0%	0.0%	0.9%	1.1%	0.2%	2.7%	-0.7%
Adjusted EBITDA as a percentage of revenue (non-GAAP)	<u>20.2%</u>	<u>1.4%</u>	<u>-5.3%</u>	<u>10.3%</u>	<u>10.3%</u>	<u>12.9%</u>	<u>10.4%</u>	<u>7.5%</u>	<u>4.7%</u>	<u>18.5%</u>	<u>12.6%</u>	<u>-1.5%</u>	<u>-20.1%</u>

* Less than 0.1% impact on Adjusted EBITDA as a percentage of revenue

Q3'17 Outlook: GAAP to Non-GAAP Reconciliation

	Three months ending September 30, 2017 (A)			
Diluted earnings per share/(loss) per share				
GAAP outlook	\$	0.05	to	\$ 0.08
Stock-based compensation expense		0.07		0.07
Amortization of intangible assets		0.05		0.05
Acquisition-related expense		0.01		0.01
Deferred tax asset adjustment		(0.01)		(0.01)
Non-GAAP outlook	\$	<u>0.17</u>		<u>\$ 0.20</u>

(A) As provided by the Company on August 3, 2017