Northland Securities Investor Conference Call

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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 in the sections “Investment Thesis”, “Market Opportunity”, “Current Projected TAM (excluding network security)”, “What is Changing Around Us”, “Three Key Takeaways”, “Outlook as of April 26, 2017”, and statements regarding our future results of operations and financial position, business strategy, strategic position, plans and objectives of management for future operations and plans for future product development and manufacturing, and statements regarding the impact of the Taqua acquisition on Sonus’ financial results, are forward-looking statements. Without limiting the foregoing, the words “anticipates”, “believes”, “could”, “estimates”, “expects”, “expectations”, “intends”, “may”, “plans”, “seeks”, “projects” and other similar language, whether in the negative or affirmative, are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, the timing of 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; our ability to realize benefits from the acquisitions that we have completed; the effects of disruption from the acquisitions that we have completed, making it more difficult to maintain relationships with employees, customers, business partners or government entities; the success implementing the integration strategies with respect to the acquisitions that we have completed; litigation; actions taken by significant stockholders; difficulties providing solutions that meet the needs of customers; market acceptance of our products and services; rapid technological and market change; our ability to protect our intellectual property rights; our ability to maintain partner, reseller, distribution and vendor support and supply relationships; higher risks in international operations and markets; the impact of increased competition; currency fluctuations; changes in the market price of our common stock; and/or failure or circumvention of our controls and procedures. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We therefore caution you against relying on any of these forward-looking statements. Important factors that could cause actual results to differ materially from those in these forward-looking statements are discussed in Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, Part I, Item 3 “Quantitative and Qualitative Disclosures About Market Risk” and Part II, Item 1A “Risk Factors” in the Company’s most recent Quarterly Report on Form 10-Q. Any forward-looking statement made by us in this 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, except as may be required by law.

Agenda

1. Investment Thesis
2. The Sonus Evolution
3. Strategic Positioning
4. Market Environment
5. New Security Initiatives
6. Financial Highlights
7. Q&A

Investment Thesis

Solid Earnings Performance & Strong Balance Sheet

- At Inflection Point in Business and Earnings Model:
  - Transformed from hardware-based to software-based with Non-GAAP gross margins close to 70%[1]
  - Acquired technology tuck-ins with intent to expand TAM and growth opportunities
  - Focused on cost controls and expanding gross margins to drive operating leverage
- FY16 Non-GAAP EPS of $0.33[2]
- ~$2.59 per share in cash[3]

Underpins Our Core Valuation

Continued Investment in New Cloud Architecture

- Strategically positioned to capture share in migration to NFV
- R&D has continued to be ~25% of total revenue[1]
- New security initiatives should expand growth opportunities

We Believe Sonus is Well-Positioned to be the Leader in the New Cloud Architecture

1) Non-GAAP financial measures for fiscal year 2016; please see reconciliation in presentation appendix.
2) Non-GAAP financial measures; please see reconciliation in presentation appendix.
3) As of March 31, 2017.

Evolution of Sonus

2010
- Pivoted Beyond Gateway to SBC
- Launched SBC 5K

2011
- Focused on SBC Growth
- Expanded Customer Focus on Enterprise
- Improving Non-GAAP Gross Margins[1], Which Were 57% in FY11 & 60% in FY12

2012 / 2013
- Acquired Network Equipment Technologies for Enterprise SBC 1K/2K (Edge)
- Established Channel Program
- ~60% of Product Revenue from SBC in FY13

2014
- Launched SBC 7K
- Acquired Performance Technologies for Signaling solutions
- > 2/3 of Product Revenue from SBC portfolio in FY14

2015
- Product Portfolio Virtualized
- Acquired assets from Treq Labs for SDN Controller
- 1H Service Provider Spend Was Volatile
- Restructuring Led to $20M of Annualized Savings

2016
- Acquired Taqua for mobile & fixed products/solutions
- FY16 Non-GAAP Gross Margin ~70%[1] and Non-GAAP EPS $0.33[1]
- ~$126M[2] Cash & No Debt[2]

1) Non-GAAP financial measure; please see reconciliation in presentation appendix.
2) As of December 31, 2016.

Why is Sonus Strategically Positioned?

- **Embedded in the World's Largest Real-Time Communication Networks**
- **Our DNA is Security and Policy For Real-Time Communications**
- **Unmatched Reliability, Performance and Functionality at Scale**
- **Mobile Solutions for Signaling, IMS, VoLTE and VoWiFi**
- **Leader in Real-Time Communication Virtualization and Cloud**

Communications Networks are Changing

Service Providers Are…

- Implementing IP Access and Peering;
- Migrating to SDN and Cloud-based Infrastructures; and
- Introducing New Services to Increase Revenue.

Enterprises Are…

- Moving to SIP Trunking;
- Implementing Unified Communications; and
- Migrating to SDN and Cloud-based Infrastructures.

Helping Enterprises

- **Securing Real-Time Communications**
- **Extensive Certified Partner Ecosystem**
- **Migration to SIP**
- **Deployment of UC and WebRTC**
- **Cloud, NFV and Virtualization**
- **Securing Remote Workers**
- **Dial Plan Consolidation and Interworking**
- **Performance and Management**

Helping Mobile and Fixed Service Providers

- **Cloud, NFV and Virtualization**
- **SS7 and Diameter Signaling**
- **SIP Interconnect and NNI**
- **Least Cost and Dynamic Session Routing**
- **Securing Real-Time Communications**
- **VoLTE, IMS, VoWiFi and LTE Calling**
- **Virtual CPE for Managed Services**
- **UC-as-a-Service**

Market Opportunity

Growth Drivers

- SP SBC: Interconnect / NNI
- SP SBC: VoLTE / Access / UCaaS
- Ent SBC: Migration to SIP / UC
- Signaling / Diameter
- Class 5 Replacement

Longer Term Growth Driver

- Migration to NFV
- Virtualized Mobile Core
- Securing UC and Cloud

Current Projected TAM (excluding network security)

Industry Segment	TAM ($M)	Product
Signaling - Signaling System 7 (TDM)	$ 548*	Sonus DSC8000/SWe
Signaling - Diameter	1,049*	Sonus DSC8000/SWe
Enterprise SBC	376*	SBC 1k/2k/5k/7k/Swe
SP SBC	811*	SBC 5k/7k/Swe
Class 5 Softswitch	238*	Sonus T7000
Class 4 Softswitch, Trunk Media Gateways, Media Servers	563*	GSC 9000
Breakout Gateway Control Function	95*	Sonus PSX
VoWiFi/LTE Calling	200**	Sonus Virtual Mobile Core
VoWiFi Client	300**	Sonus Mobile Client
Total	**$ 4,180**	

* Source: IHS and Exact Ventures Reports Fall 2016

** Source: Sonus estimation

What is Changing Around Us?

The Implications of Zero-Trust

- There are no security borders
- Every application must be secured
- The security stack must be re-architected

Implications to Sonus

- Attacks are becoming increasingly sophisticated
- A single network element cannot handle them alone
- Real-time communications are not fully secured

Three Key Takeaways

1

Virtualization is driving disruption in networking

2

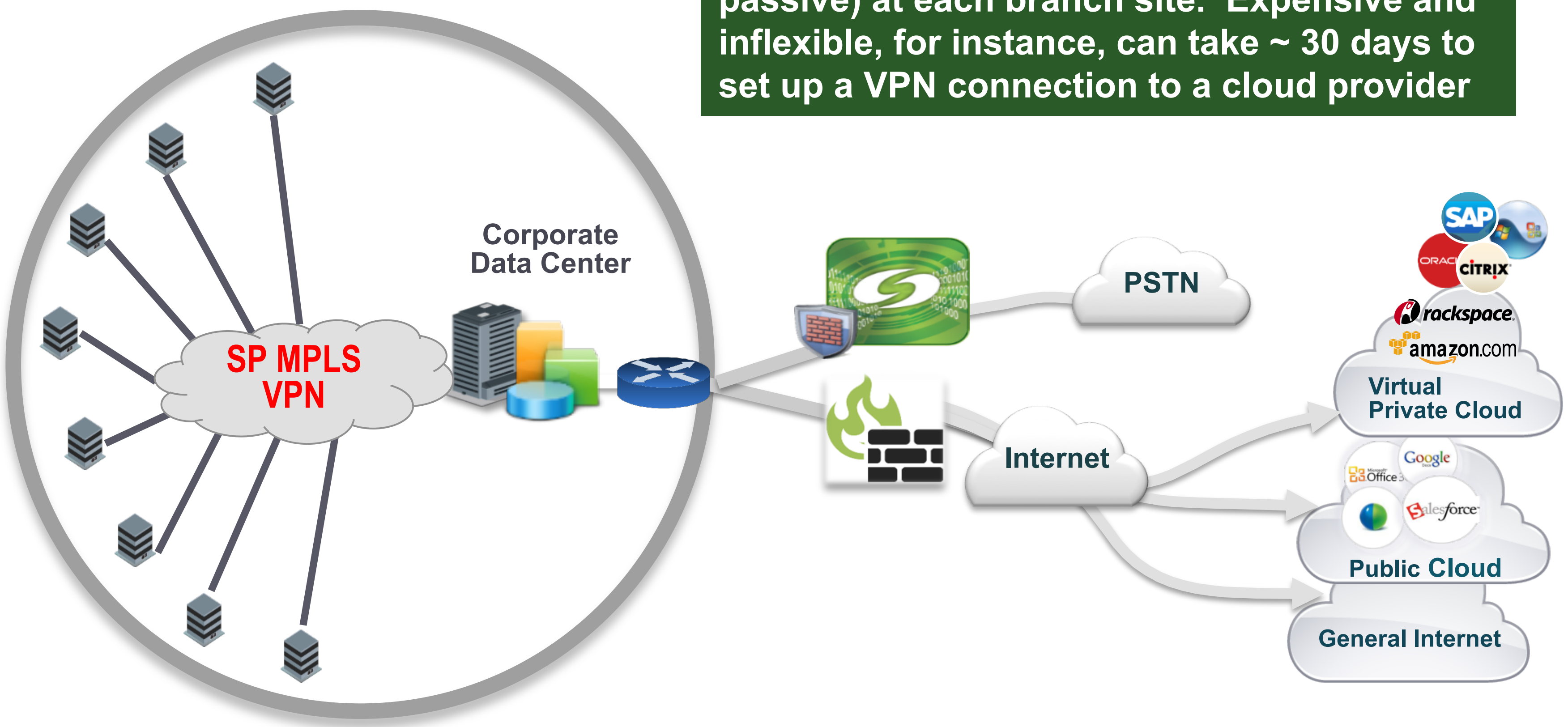
SIP adoption is up…and hackers are taking notice

3

Sonus is perfectly positioned to take share and grow!

Enterprise Networking Today: Inflexible And Expensive

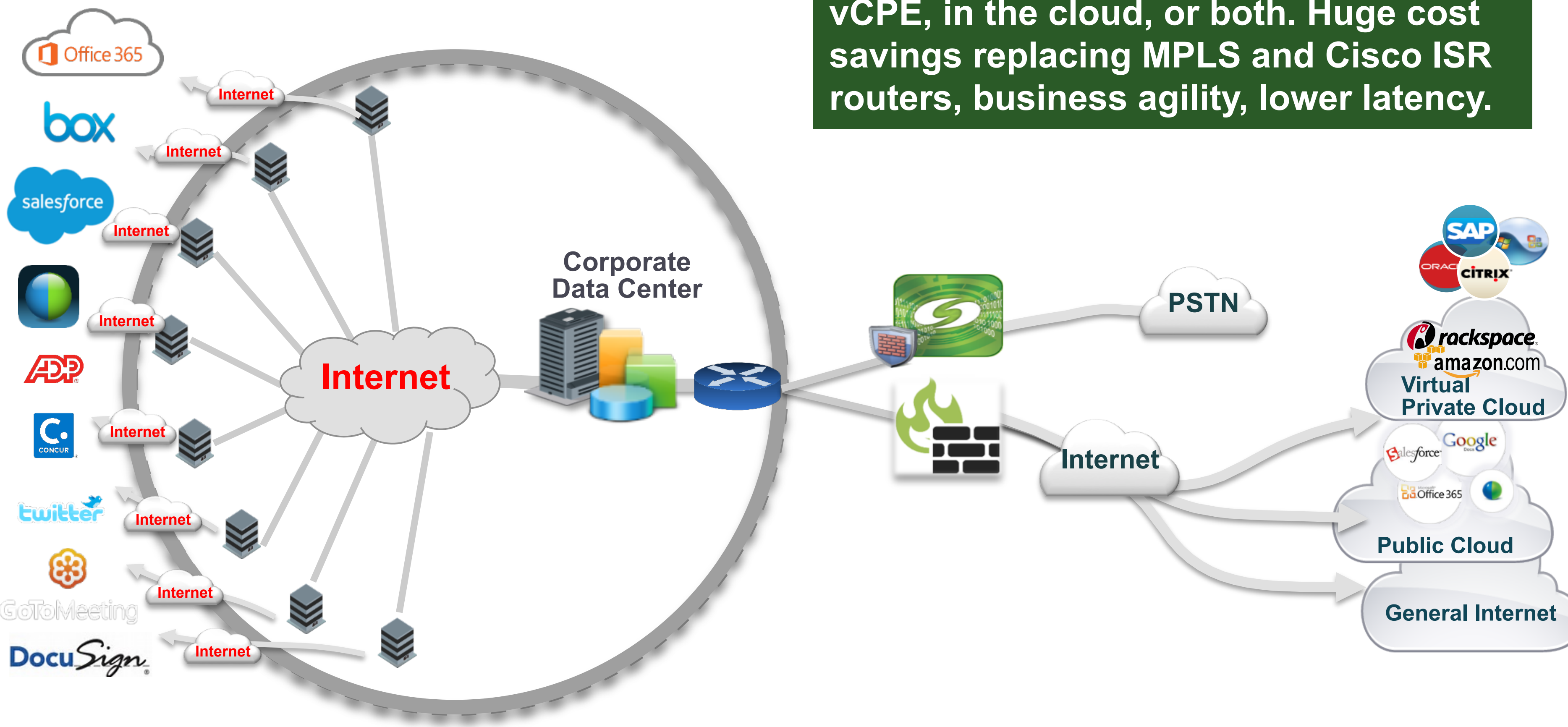
Hub and Spoke VPNs. Network security applied at VPN sites (Internet ingress and egress). Typically dual MPLS links (active / passive) at each branch site. Expensive and inflexible, for instance, can take ~ 30 days to set up a VPN connection to a cloud provider



The logos above are representative examples of cloud providers. This slide is not representing that these companies are affiliated with Sonus or are current customers or partners of Sonus.

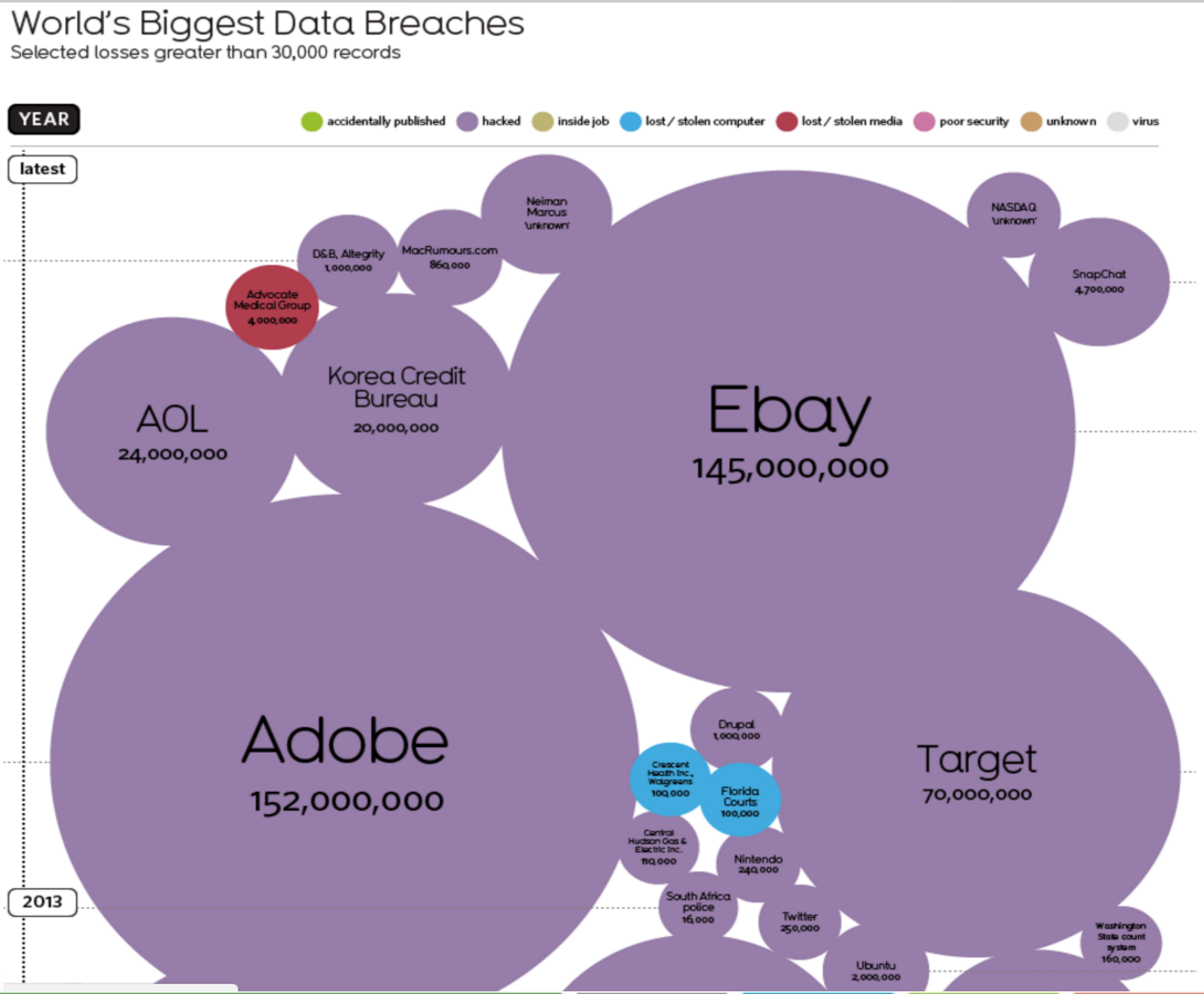
Enterprise Networking Tomorrow: SD-WAN

Broadband replaces some or all branch office links. VNFs run on white box vCPE, in the cloud, or both. Huge cost savings replacing MPLS and Cisco ISR routers, business agility, lower latency.



The logos above are representative examples of enterprises that are fueling the API economy as well as cloud providers. This slide is not representing that these companies are affiliated with Sonus or are current customers or partners of Sonus.

Data Breaches: A Big Threat



Companies lose $400 billion to hackers each year.

Source: http://www.informationisbeautiful.net/visualizations/worlds-biggest-data-breaches-static/

The companies above are representative examples of enterprises that have fallen threat to data breaches. This slide is not representing that these companies are affiliated with Sonus or are current customers or partners of Sonus. Please refer to the source link above for full graphics.

Next Generation Firewalls do a lot of things very well…

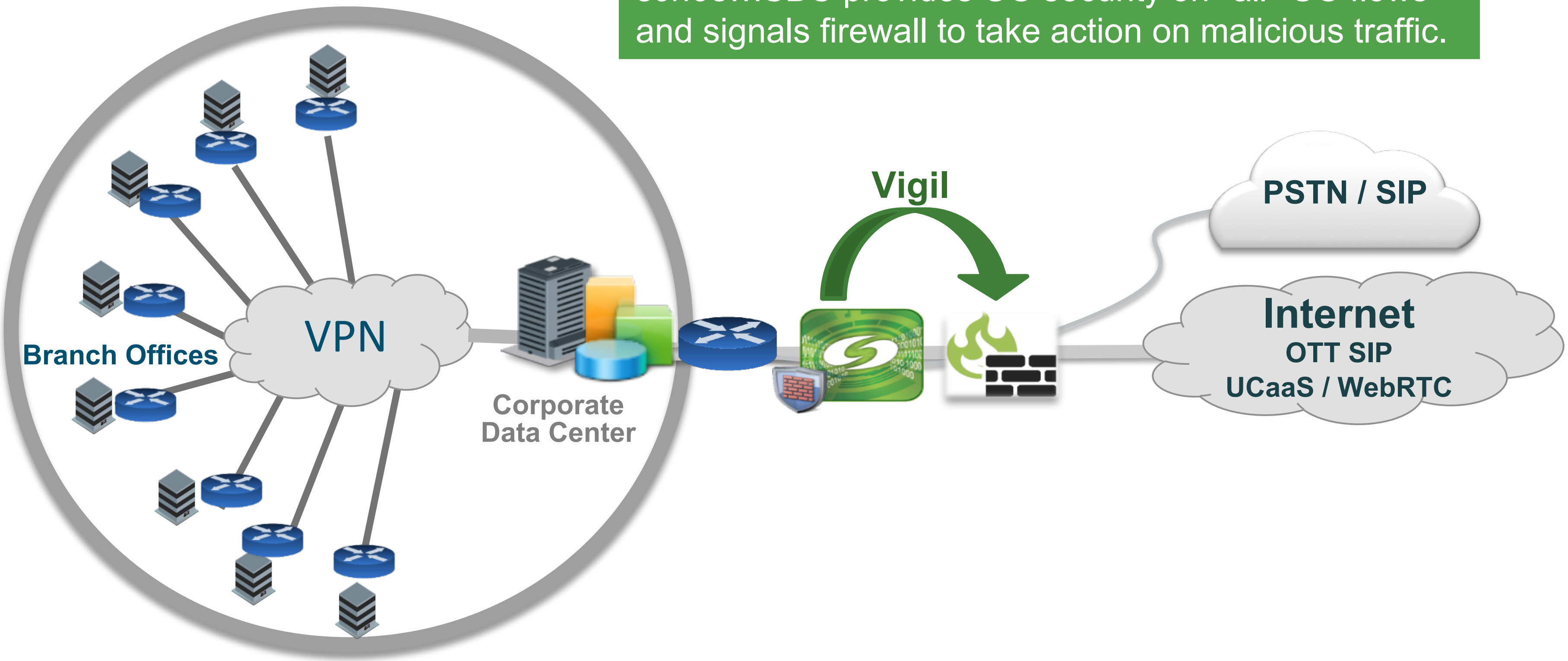
- Application layer signature mapping
- Intrusion detection and prevention
- Malware protection

Session Border Controllers do a lot of things very well…

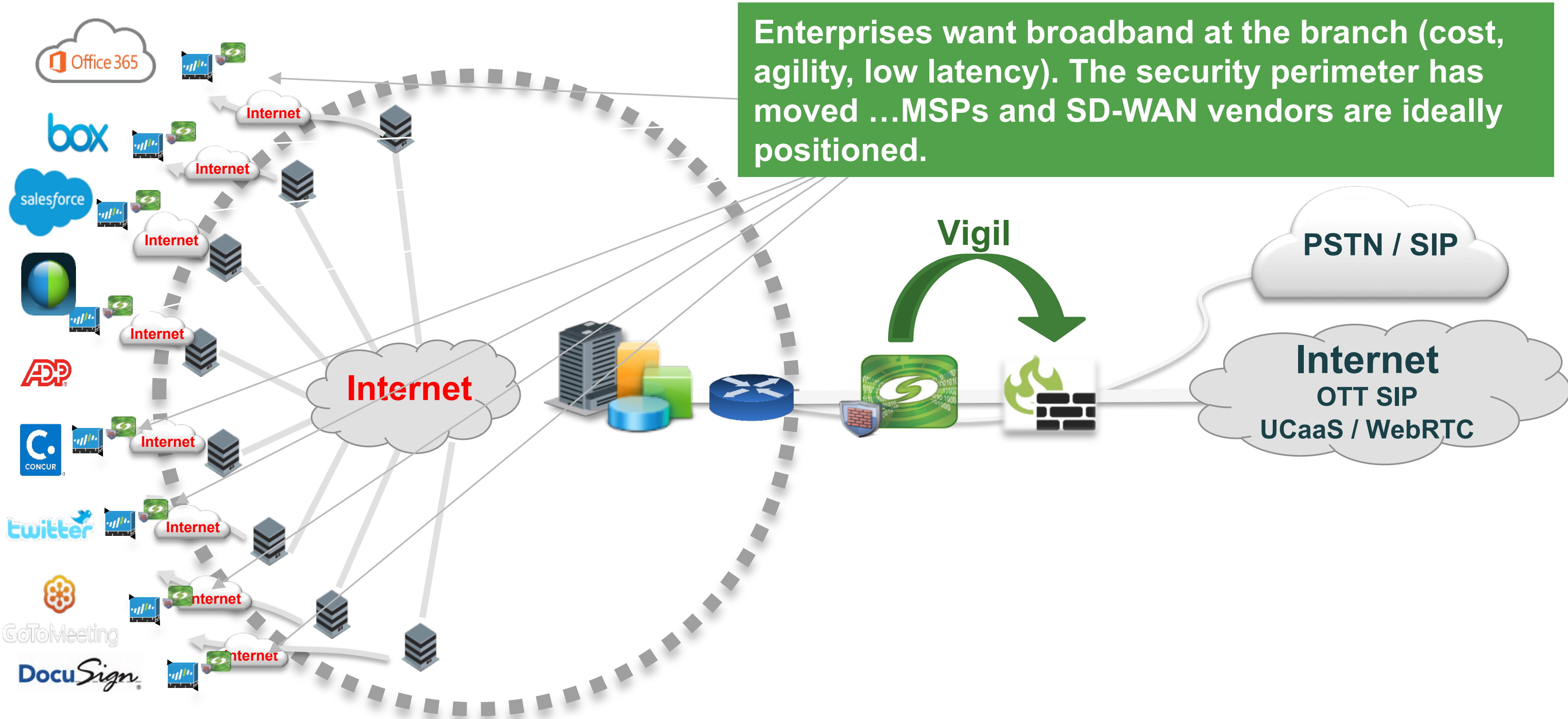
- Back-to-back user agent… decryption and inspection
- *Stateful* session management
- Identity awareness and UC management

New Security Perimeter: Voice and Data Security in Series

Sonus SBC and Palo Alto Networks NGFW now in *series…*SBC provides UC security on *all* UC flows and signals firewall to take action on malicious traffic.



New Security Perimeter in a NFV and SD-WAN World



Enterprises want broadband at the branch (cost, agility, low latency). The security perimeter has moved …MSPs and SD-WAN vendors are ideally positioned.

The logos above are representative examples of enterprises that are fueling the API economy. This slide is not representing that these companies are affiliated with Sonus or are current customers or partners of Sonus.

Sonus’ Mission

Securing and enabling real-time communication at scale with continuous focus on driving top and bottom line financial results.

Sonus’ Vision

Become a leader in the new mobile and cloud architecture, driving incremental growth in revenue and earnings.

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Financial Highlights

Condensed Non-GAAP Statement of Operations

Condensed non-GAAP P&L Millions (except per share amounts & GM%)	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	$ 25.4	$ 146.4	$ 37.7	$ 38.6	$ 35.3	$ 34.8	$ 141.9	$ 47.8	$ 42.2	$ 27.0	$ 24.9
Service Revenue	28.0	106.2	29.9	26.4	25.5	24.4	107.1	28.5	25.6	27.7	25.3
Total Revenue	**53.4**	**252.6**	**67.6**	**65.0**	**60.9**	**59.2**	**249.0**	**76.3**	**67.9**	**54.7**	**50.1**
Gross Margin	35.7	175.3	47.3	45.5	42.1	40.4	168.9	54.5	47.5	36.1	30.9
Gross Margin %	*67.0%*	*69.4%*	*70.0%*	*69.9%*	*69.2%*	*68.4%*	*67.8%*	*71.4%*	*70.0%*	*65.9%*	*61.5%*
OPEX	**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	**(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)	**$ (4.5)**	**$ 16.5**	**$ 4.5**	**$ 6.2**	**$ 4.1**	**$ 1.7**	**$ (1.1)**	**$ 11.6**	**$ 5.6**	**$ (5.1)**	**$ (13.1)**
Diluted EPS	**$ (0.09)**	**$ 0.33**	**$ 0.09**	**$ 0.12**	**$ 0.08**	**$ 0.03**	**$ (0.02)**	**$ 0.23**	**$ 0.11**	**$ (0.10)**	**$ (0.27)**
Diluted Shares	**49.1**	**49.7**	**49.5**	**49.9**	**50.0**	**49.7**	**49.6**	**49.9**	**49.7**	**49.5**	**49.4**

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Condensed Balance Sheet

Balance Sheet $M	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
ASSETS									
Cash & Investments	$ 128.8	$ 126.1	$ 121.0	$ 142.7	$ 142.4	$ 142.2	$ 126.9	$ 113.5	$ 112.8
Accounts Receivable, Net	39.6	53.9	44.2	36.9	34.4	51.5	51.3	48.7	55.6
Inventory, Net	17.7	18.3	20.8	20.7	22.5	23.1	24.2	25.7	25.1
Property Plant Equipment, Net	11.0	11.7	13.1	12.4	12.7	13.6	14.8	15.5	18.3
Goodwill & Intangibles	77.8	79.6	90.9	62.7	64.5	66.4	68.5	70.3	71.9
Other Assets	19.5	18.5	19.9	20.7	21.4	16.1	19.5	21.7	20.3
Total Assets	**$ 294.4**	**$ 308.1**	**$ 309.9**	**$ 296.1**	**$ 297.9**	**$ 312.9**	**$ 305.2**	**$ 295.4**	**$ 304.0**
LIABILITIES & EQUITY									
Liabilities	$ 27.8	$ 38.3	$ 42.8	$ 30.6	$ 28.0	$ 43.8	$ 41.4	$ 33.4	$ 34.2
Deferred Revenues	54.6	50.7	46.4	45.4	48.3	46.1	48.3	49.5	48.6
Stockholders Equity	212.0	219.1	220.7	220.1	221.6	223.0	215.5	212.5	221.2
Total Liabilities and Equity	**$ 294.4**	**$ 308.1**	**$ 309.9**	**$ 296.1**	**$ 297.9**	**$ 312.9**	**$ 305.2**	**$ 295.4**	**$ 304.0**
DSO	67	74	61	54	52	61	68	80	100

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Condensed Statement of Cash Flow

Condensed Cash Flow $M	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
Cash from Operations	$ 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	(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)	(0.6)	0.5	(0.4)	(0.0)	$ 1.0	0.4	0.1	(0.5)	1.1
Net Change	**$ 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	**$ 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	**$ 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.

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Key Stats

($000's)	Q117	FY16	Q416	Q316	Q216	Q116	FY15	Q415	Q315	Q215	Q115
Revenue											
Product	25,395	146,381	37,662	38,601	35,349	34,769	141,913	47,776	42,230	27,042	24,865
Services	27,973	106,210	29,910	26,410	25,508	24,382	107,121	28,550	25,632	27,659	25,280
Total Revenue	**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	**Q117**	**FY16**	**Q416**	**Q316**	**Q216**	**Q116**	**FY15**	**Q415**	**Q315**	**Q215**	**Q115**
Revenue											
Product	48%	58%	56%	59%	58%	59%	57%	63%	62%	49%	50%
Services	52%	42%	44%	41%	42%	41%	43%	37%	38%	51%	50%
Revenue by Geography											
Domestic	67%	69%	68%	70%	70%	68%	71%	70%	77%	71%	62%
International	33%	31%	32%	30%	30%	32%	29%	30%	23%	29%	38%
% of Total Revenue	**Q117**	**FY16**	**Q416**	**Q316**	**Q216**	**Q116**	**FY15**	**Q415**	**Q315**	**Q215**	**Q115**
Revenue by Channel											
Direct	66%	76%	75%	68%	75%	79%	76%	75%	78%	74%	76%
Indirect	34%	24%	25%	32%	25%	21%	24%	25%	22%	26%	24%
Operating Statistics	**Q117**	**FY16**	**Q416**	**Q316**	**Q216**	**Q116**	**FY15**	**Q415**	**Q315**	**Q215**	**Q115**
10% Customers											
Number of 10% customers	1	1	1	1	2	2	1	0	3	1	2
Name of 10% customers	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 Product Revenue	12,875	54,409	12,506	14,194	13,588	14,121	49,700	17,554	13,524	9,457	9,165
5K/7K as % of Product Revenue	51%	37%	33%	37%	38%	41%	35%	37%	32%	35%	37%
Top 5 Customers as % of Revenue	44%	37%	39%	41%	46%	46%	37%	33%	50%	40%	43%
Enterprise as % of Product Revenue	28%	19%	18%	21%	20%	18%	19%	19%	20%	22%	15%
Number of Total Customers**	822	*	773	698	691	640	*	698	664	624	695
Number of New Customers**	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.

Outlook as of April 26, 2017[1]

- **Q217**
  - Revenue of approximately $54 million
  - GAAP loss per share of approximately ($0.25)
  - Non-GAAP loss per share of approximately ($0.10)[2]

- **First Half 2017**
  - Revenue of approximately $107 million

- **Fiscal 2017**
  - Flat to low single digit revenue growth versus prior year
  - Non-GAAP diluted earnings per share of $0.26[2], which equates to a GAAP loss per share of ($0.25)

1) Although business conditions are subject to change, in accordance with Sonus's policy, this earnings guidance was effective at the date given (April 26, 2017) and is not being updated until the company publicly announces updated guidance.
2) Non-GAAP financial measures; please see reconciliation in presentation appendix.

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, the write-off of prepaid royalties for software licenses, incremental depreciation expense arising from the write-up of acquired property and equipment, patent litigation settlement expense, depreciation expense for an abandoned facility, acquisition-related expense, restructuring, certain gains included in other income (expense) and a deferred tax asset adjustment. We consider the use of non-GAAP earnings (loss) per share helpful in assessing the performance of the continuing operations of our business. 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.

In the fourth quarter of 2012, we wrote off $7.1 million of prepaid royalties for software licenses related to products from which we did not expect to derive future revenues. We believe that excluding the write-off of these prepaid royalties facilitates the comparison of our gross margins to our historical operating results and other companies in our industry.

As part of the assessment of the assets acquired and liabilities assumed in connection with the 2012 acquisition of Network Equipment Technologies, Inc. ("NET"), we were required to increase the aggregate fair value of acquired property and equipment by $2.0 million. The acquired property and equipment was depreciated over a weighted average useful life of approximately 2.5 years. We believe that excluding the incremental depreciation expense resulting from the fair value write-up of this acquired property and equipment in 2012 facilitates the comparison of our operating results to our historical results and to other companies in our industry.

In June 2016, we recorded $0.6 million of patent litigation settlement costs. This amount is included as a component of General and administrative expense; however, we believe that such patent litigation settlement costs are not part of our core business or ongoing operations. Accordingly, we believe that excluding this patent litigation settlement expense facilitates the comparison of our financial results to our historical operating results and to other companies in our industry.

Discussion of Non-GAAP Financial Measures (continued)

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.

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. Additionally, as previously announced, we expect to record restructuring expense in connection with new restructuring initiatives over the next twelve months. 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.

Discussion of Non-GAAP Financial Measures (continued)

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, Inc. ("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. We expect to complete the sale of additional IP address blocks in the second half of 2017, and accordingly, have included a gain of $0.6 million in our outlook for the full year 2017. 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.

We anticipate that we will 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 will result in an income tax credit and reduce our provision in the reversal period. We believe that such adjustments are not part of our core business or ongoing operations. Accordingly, we believe that excluding the income tax credit arising from the reversal of the deferred tax assets facilitates the comparison of our financial results to our historical results and to other companies in our industry.

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

FY11 and FY12 Gross Margin: GAAP to Non-GAAP Reconciliation

	Year ended December 31,	
	2011	2012
GAAP total gross margin	56.3%	56.1%
Stock-based compensation expense	0.6%	0.4%
Amortization of intangible assets	0.0%	0.7%
Write-off of prepaid royalties for software licenses	0.0%	2.7%
Incremental depreciation expense resulting from the write-up of acquired property and equipment	0.0%	0.1%
Non-GAAP total gross margin	56.9%	60.0%

R&D as % of Revenue: GAAP to Non-GAAP Reconciliation

(in thousands, except percentages)	Q117	FY16	Q416	Q316	Q216	Q116	FY15	Q415	Q315	Q215	Q115
Revenue	$ 53,368	$ 252,591	$ 67,572	$ 65,011	$ 60,857	$ 59,151	$ 249,034	$ 76,326	$ 67,862	$ 54,701	$ 50,145
R&D expense											
GAAP research and development	$ 20,209	$ 72,841	$ 19,836	$ 18,230	$ 17,457	$ 17,318	$ 77,908	$ 19,266	$ 19,335	$ 19,968	$ 19,339
Stock-based compensation expense	(1,317)	(5,014)	(1,327)	(1,298)	(1,210)	(1,179)	(5,439)	(1,287)	(1,349)	(1,445)	(1,358)
Depreciation expense for abandoned facility	-	-	-	-	-	-	(646)	-	(322)	(324)	-
Non-GAAP	$ 18,892	$ 67,827	$ 18,509	$ 16,932	$ 16,247	$ 16,139	$ 71,823	$ 17,979	$ 17,664	$ 18,199	$ 17,981
R&D as % of revenue											
GAAP research and development	37.9%	28.8%	29.4%	28.0%	28.7%	29.3%	31.3%	25.2%	28.5%	36.5%	38.6%
Stock-based compensation expense	-2.5%	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%	-2.2%	-1.7%	-2.0%	-2.6%	-2.7%
Depreciation expense for abandoned facility	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.3%	0.0%	-0.5%	-0.6%	0.0%
Non-GAAP	35.4%	26.9%	27.4%	26.0%	26.7%	27.3%	28.8%	23.6%	26.0%	33.3%	35.9%

Q217 and FY17 Outlook : GAAP to Non-GAAP Reconciliation

	Three months ending June 30, 2017 (A)		Year ending December 31, 2017 (A)	
Earnings (loss) per share				
GAAP outlook	$	(0.25)	$	(0.25)
Stock-based compensation expense		0.08		0.30
Amortization of intangible assets		0.05		0.19
Acquisition-related expense		-		*
Restructuring		0.03		0.04
Sale of domain names		(0.01)		(0.01)
Deferred tax asset adjustment		-		(0.01)
Non-GAAP outlook	$	(0.10)	$	0.26

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

(A) As provided by the Company on April 26, 2017

Quarterly GAAP to Non-GAAP Reconciliation

(in thousands, except percentages)	Q117	FY16	Q416	Q316	Q216	Q116	FY15	Q415	Q315	Q215	Q115
GAAP total gross profit	$ 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	416	1,673	429	426	415	403	1,841	448	459	480	454
Amortization of intangible assets	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	$ 35,730	$ 175,322	$ 47,324	$ 45,467	$ 42,098	$ 40,433	$ 168,882	$ 54,466	$ 47,494	$ 36,070	$ 30,852
GAAP total gross margin	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	0.8%	0.7%	0.6%	0.7%	0.7%	0.7%	0.7%	0.6%	0.7%	0.9%	0.9%
Amortization of intangible assets	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	67.0%	69.4%	70.0%	69.9%	69.2%	68.4%	67.8%	71.4%	70.0%	65.9%	61.5%
GAAP operating expenses	$ 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	(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	(693)	(1,462)	(506)	(319)	(318)	(319)	(1,723)	(415)	(414)	(415)	(479)
Patent litigation settlement expense	-	(605)	-	-	(605)	-	-	-	-	-	-
Depreciation expense for abandoned facility	-	-	-	-	-	-	(646)	-	(322)	(324)	-
Acquisition-related expense	(56)	(1,152)	(201)	(951)	-	-	(131)	-	-	(24)	(107)
Restructuring	(570)	(2,740)	(1,120)	(1,620)	-	-	(2,148)	(842)	(158)	(1,487)	339
Non-GAAP operating expenses	$ 40,364	$ 157,166	$ 42,396	$ 39,030	$ 37,787	$ 37,953	$ 168,368	$ 42,635	$ 41,366	$ 40,884	$ 43,483
GAAP income (loss) from operations	$ (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	3,263	19,768	4,304	6,408	4,641	4,415	21,699	4,797	5,273	6,809	4,820
Amortization of intangible assets	2,259	7,500	2,007	1,774	1,773	1,946	7,107	2,132	1,737	1,591	1,647
Patent litigation settlement expense	-	605	-	-	605	-	-	-	-	-	-
Depreciation expense for abandoned facility	-	-	-	-	-	-	646	-	322	324	-
Acquisition-related expense	56	1,152	201	951	-	-	131	-	-	24	107
Restructuring	570	2,740	1,120	1,620	-	-	2,148	842	158	1,487	(339)
Non-GAAP income (loss) from operations	$ (4,634)	$ 18,156	$ 4,928	$ 6,437	$ 4,311	$ 2,480	$ 514	$ 11,831	$ 6,128	$ (4,814)	$ (12,631)

Quarterly GAAP to Non-GAAP Reconciliation (continued)

(in thousands, except per share amounts)	Q117	FY16	Q416	Q316	Q216	Q116	FY15	Q415	Q315	Q215	Q115
GAAP net income (loss)	$ (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	3,263	19,768	4,304	6,408	4,641	4,415	21,699	4,797	5,273	6,809	4,820
Amortization of intangible assets	2,259	7,500	2,007	1,774	1,773	1,946	7,107	2,132	1,737	1,591	1,647
Patent litigation settlement expense	-	605	-	-	605	-	-	-	-	-	-
Depreciation expense for abandoned facility	-	-	-	-	-	-	646	-	322	324	-
Acquisition-related expense	56	1,152	201	951	-	-	131	-	-	24	107
Restructuring	570	2,740	1,120	1,620	-	-	2,148	842	158	1,487	(339)
Gains on sales of domain names and IP address blocks	-	(1,298)	(498)	(800)	-	-	(896)	(896)	-	-	-
Non-GAAP net income (loss)	$ (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	$ (0.22)	$ (0.28)	$ (0.05)	$ (0.08)	$ (0.06)	$ (0.09)	$ (0.64)	$ 0.09	$ (0.04)	$ (0.31)	$ (0.39)
Stock-based compensation expense	0.07	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	0.15	0.04	0.04	0.04	0.04	0.14	0.04	0.03	0.03	0.03
Patent litigation settlement expense	-	0.01	-	-	0.01	-	-	-	-	-	-
Depreciation expense for abandoned facility	-	-	-	-	-	-	0.01	-	0.01	0.01	-
Acquisition-related expense	**	0.02	**	0.02	-	-	**	-	-	**	**
Restructuring	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	-	(0.03)	(0.01)	(0.02)	-	-	(0.02)	(0.02)	-	-	-
Non-GAAP diluted earnings (loss) per share	$ (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

Thank You!