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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

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

For the transition period from to

Commission File Number 001-34115

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

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

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

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

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act) o

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

As of October 18, 2017, there were 50,071,956 shares of the registrant's common stock, $0.001 par value, outstanding.

SONUS NETWORKS, INC.
FORM 10-Q
QUARTERLY PERIOD ENDED SEPTEMBER 30, 2017
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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, statements about the completion, timing and impact of the transactions described herein, plans and objectives of management for future operations, plans for future cost reductions and plans for future product development and manufacturing are forward-looking statements. Without limiting the foregoing, the words "anticipates", "believes", "could", "estimates", "expects", "intends", "may", "plans", "seeks" and other similar language, whether in the negative or affirmative, are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We therefore caution you against relying on any of these forward-looking statements.

This document also contains statements about Sonus' agreement to effect a strategic combination with GENBAND Holdings Company ("GENBAND") resulting in a new combined company ("NewCo") (collectively, the "Transaction"). Many risks and uncertainties could cause actual results to differ materially from these forward-looking statements with respect to the Transaction, and these risks, as well as other risks associated with the pending merger, are more fully disclosed in the joint proxy statement/prospectus that is included in the registration statement on Form S-4 (File No. 333-219008) that was filed with the U.S. Securities and Exchange Commission in connection with the pending merger.

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

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

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 51,280	$ 31,923
Marketable securities	53,272	61,836
Accounts receivable, net of allowance for doubtful accounts of $317 at September 30, 2017 and $10 at December 31, 2016	51,637	53,862
Inventory	16,282	18,283
Other current assets	14,314	12,010
Total current assets	186,785	177,914
Property and equipment, net	9,742	11,741
Intangible assets, net	23,352	30,197
Goodwill	49,891	49,393
Investments	27,018	32,371
Deferred income taxes	1,570	1,542
Other assets	4,086	4,901
	$ 302,444	$ 308,059
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 6,947	$ 6,525
Accrued expenses	23,771	25,886
Current portion of deferred revenue	48,182	43,504
Current portion of long-term liabilities	707	1,154
Total current liabilities	79,607	77,069
Deferred revenue	6,777	7,188
Deferred income taxes	3,687	3,047
Other long-term liabilities	1,791	1,633
Total liabilities	91,862	88,937
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, $0.01 par value per share; 5,000,000 shares authorized, none issued and outstanding	—	—
Common stock, $0.001 par value per share; 120,000,000 shares authorized; 49,945,286 shares issued and outstanding at September 30, 2017; 49,041,881 shares issued and outstanding at December 31, 2016	50	49
Additional paid-in capital	1,261,627	1,250,744
Accumulated deficit	(1,056,712)	(1,037,174)
Accumulated other comprehensive income	5,617	5,503
Total stockholders' equity	210,582	219,122
	$ 302,444	$ 308,059

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		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Revenue:				
Product	$ 44,120	$ 38,601	$ 98,305	$ 108,719
Service	30,509	26,410	85,425	76,300
Total revenue	74,629	65,011	183,730	185,019
Cost of revenue:				
Product	9,708	12,285	28,748	35,230
Service	10,374	9,140	30,285	27,572
Total cost of revenue	20,082	21,425	59,033	62,802
Gross profit	54,547	43,586	124,697	122,217
Operating expenses:				
Research and development	20,798	18,230	61,071	53,005
Sales and marketing	17,454	18,103	47,850	50,890
General and administrative	10,833	8,998	27,993	26,656
Acquisition-related	1,543	951	6,278	951
Restructuring	—	1,620	1,071	1,620
Total operating expenses	50,628	47,902	144,263	133,122
Income (loss) from operations	3,919	(4,316)	(19,566)	(10,905)
Interest income, net	260	209	772	590
Other income, net	1	803	577	916
Income (loss) before income taxes	4,180	(3,304)	(18,217)	(9,399)
Income tax provision	(727)	(427)	(1,321)	(1,902)
Net income (loss)	$ 3,453	$ (3,731)	$ (19,538)	$ (11,301)
Earnings (loss) per share:				
Basic	$ 0.07	$ (0.08)	$ (0.39)	$ (0.23)
Diluted	$ 0.07	$ (0.08)	$ (0.39)	$ (0.23)
Shares used to compute earnings (loss) per share:				
Basic	49,753	49,402	49,472	49,436
Diluted	50,131	49,402	49,472	49,436

See notes to the unaudited condensed consolidated financial statements.

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

	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Net income (loss)	$ 3,453	$ (3,731)	$ (19,538)	$ (11,301)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(13)	49	102	484
Unrealized gain (loss) on available-for sale marketable securities, net of tax	43	(112)	12	160
Reclassification adjustment for realized losses included in net loss	—	—	—	18
Other comprehensive income (loss), net of tax	30	(63)	114	662
Comprehensive income (loss), net of tax	$ 3,483	$ (3,794)	$ (19,424)	$ (10,639)

See notes to the unaudited condensed consolidated financial statements.

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

	Nine months ended	
	September 30, 2017	September 30, 2016
Cash flows from operating activities:		
Net loss	$ (19,538)	$ (11,301)
Adjustments to reconcile net loss to cash flows provided by operating activities:		
Depreciation and amortization of property and equipment	5,255	5,914
Amortization of intangible assets	6,845	5,493
Stock-based compensation	11,387	15,464
Loss on disposal of property and equipment	10	29
Gain on sale of IP addresses	(576)	(800)
Deferred income taxes	687	763
Changes in operating assets and liabilities:		
Accounts receivable	2,360	9,287
Inventory	1,806	2,756
Other operating assets	(545)	(798)
Accounts payable	384	(2,904)
Accrued expenses and other long-term liabilities	(3,028)	(12,032)
Deferred revenue	4,000	(1,823)
Net cash provided by operating activities	9,047	10,048
Cash flows from investing activities:		
Purchases of property and equipment	(3,265)	(3,637)
Business acquisition, net of cash acquired	—	(20,669)
Purchases of marketable securities	(28,731)	(62,468)
Maturities/sales of marketable securities	41,964	65,327
Proceeds from the sale of IP addresses	576	800
Net cash provided by (used in) investing activities	10,544	(20,647)
Cash flows from financing activities:		
Proceeds from sale of common stock in connection with employee stock purchase plan	1,252	1,360
Proceeds from exercise of stock options	149	135
Payment of tax withholding obligations related to net share settlements of restricted stock awards	(1,904)	(1,538)
Repurchase of common stock	—	(7,130)
Principal payments of capital lease obligations	(30)	(33)
Net cash used in financing activities	(533)	(7,206)
Effect of exchange rate changes on cash and cash equivalents	299	260
Net increase (decrease) in cash and cash equivalents	19,357	(17,545)
Cash and cash equivalents, beginning of year	31,923	50,111
Cash and cash equivalents, end of period	$ 51,280	$ 32,566
Supplemental disclosure of cash flow information:		
Interest paid	$ 84	$ 27
Income taxes paid	$ 1,198	$ 1,024
Income tax refunds received	$ 91	$ 275
Supplemental disclosure of non-cash investing activities:		
Capital expenditures incurred, but not yet paid	$ 301	$ 444
Property and equipment acquired under capital lease	$ —	$ 36
Fair value of contingent consideration related to acquisition	$ —	$ 10,000

See notes to the unaudited condensed consolidated financial statements.

(1) BASIS OF PRESENTATION

Business

Sonus Networks, Inc. (“Sonus” or the “Company”) is a leading provider of networked solutions for communications service providers (e.g., telecommunications, wireless and cable service providers) and enterprises to help them secure and unify their real-time communications infrastructures. Sonus helps many of the world's leading communications service providers and enterprises embrace the next generation of Session Initiation Protocol ("SIP") and 4G/LTE (Long-Term Evolution)-based solutions, including Voice over IP ("VoIP"), Voice over WiFi ("VoWiFi"), video and Unified Communications ("UC") through secure, reliable and scalable Internet Protocol ("IP") networks. Sonus' products include session border controllers ("SBCs"), diameter signaling controllers ("DSCs") and VoWiFi solutions, which are supported by a global services team with experience in the design, deployment and maintenance of the world's largest IP networks.

Sonus' communications solutions provide a secure way for its customers to 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. Sonus' solutions help realize the intended value and benefits of UC platforms by allowing disparate communications environments, commonplace in most enterprises today, to work seamlessly together. Likewise, Sonus' solutions facilitate the evolution to cloud-based delivery of UC solutions.

Pending Merger

On May 23, 2017, Sonus entered into an Agreement and Plan of Merger (the “Merger Agreement”) with (i) Solstice Sapphire Investments, Inc. ("NewCo") and its wholly-owned subsidiaries and (ii) GENBAND Holdings Company ("GENBAND") and its two related holding companies such that, following a series of merger transactions (collectively, the "Mergers"), both the Company and GENBAND will each become a wholly-owned subsidiary of NewCo. Former stockholders of the Company will own approximately 50%, and former shareholders of GENBAND and the two related holding companies will own approximately 50%, of the shares of NewCo common stock issued and outstanding immediately following the consummation of the Mergers.

GENBAND is a Cayman Islands exempted company limited by shares that was formed on April 7, 2010. Through its wholly owned operating subsidiaries, GENBAND creates rapid communications and applications for service providers, enterprises, independent software vendors, system integrators and developers globally. A majority of GENBAND's shares are held by funds affiliated with One Equity Partners. GENBAND shares are not listed on an exchange or quoted on any automated services, and there is no established trading market for GENBAND shares.

The Company believes that Sonus' and GENBAND's complementary products, solutions and strategies position the combined company to deliver comprehensive solutions to service providers and enterprises migrating to a virtualized all-IP environment in an expanded customer and global footprint.

Pursuant to the Merger Agreement, NewCo will issue shares to the GENBAND equity holders, with the number of shares issued in the aggregate to the GENBAND equity holders equal to the number of shares of the Company’s common stock outstanding immediately prior to the closing date of the Mergers. In addition, NewCo will repay GENBAND’s long-term debt, including both principal and unpaid interest, to a related party totaling approximately $48 million and repay GENBAND’s management fees due to a representative of a majority shareholder totaling $10.3 million. NewCo will also pay an estimated $9.0 million of NewCo's transaction fees incurred in connection with the Mergers and issue a promissory note for $22.5 million to certain GENBAND equity holders.

NewCo will assume the liability under GENBAND's revolving credit facility with Silicon Valley Bank (the "GENBAND facility"), which had outstanding borrowings and letters of credit totaling $18.0 million and $2.9 million, respectively, at October 26, 2017. At October 26, 2017, the outstanding borrowings had an average interest rate of 4.67%.

The Company's Board of Directors unanimously approved the Merger Agreement and the transactions contemplated thereby. The Company held a special meeting of the Company's stockholders (the “Special Stockholders’ Meeting”) on

Thursday, October 26, 2017, at which the Company's stockholders voted to, among other things, adopt the Merger Agreement. The Company expects that the Mergers will be consummated on Friday, October 27, 2017.

Basis of Presentation

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

Interim results are not necessarily indicative of results for a full year or any future interim period. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2016 (the "Annual Report"), which was filed with the SEC on February 27, 2017.

Significant Accounting Policies

The Company's significant accounting policies are disclosed in Note 2 to the Consolidated Financial Statements included in the Annual Report. There were no material changes to the significant accounting policies during either the three or nine months ended September 30, 2017.

Principles of Consolidation

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

Use of Estimates and Judgments

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

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, which include cash equivalents, marketable securities, investments, accounts receivable, accounts payable 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

Any forward-looking statements regarding the potential impact of recent accounting pronouncements do not include the potential impact of the pending merger with GENBAND.

In May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-09, *Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting* ("ASU 2017-09"), which amends the scope of modification accounting for share-based payment arrangements. ASU 2017-09 provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under Accounting Standards Codification ("ASC") 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions and classification of the awards are the same immediately before and after the modification. ASU 2017-09 is effective for the Company beginning January 1, 2018 for both interim and annual reporting periods, with early adoption permitted. The Company does not expect the adoption of ASU 2017-09 will have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"), which removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step two of the goodwill impairment test. As a result, under ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, ASU 2017-04 clarifies the requirements for excluding and allocating foreign currency translation adjustments to reporting units in connection with an entity's testing of reporting units for goodwill impairment; clarifies that an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable; and makes minor changes to other related guidance within the ASC. ASU 2017-04 is effective prospectively for the Company beginning January 15, 2020, with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company elected to early-adopt ASU 2017-04 as of January 1, 2017; such early adoption did not have a material impact on the Company's consolidated financial results.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* ("ASU 2016-16"), which removes the prohibition in ASC 740, *Income Taxes,* against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. ASU 2016-16 is intended to reduce the complexity of GAAP and diversity in practice related to the tax consequences of certain types of intra-entity asset transfers, particularly those involving intellectual property. ASU 2016-16 is effective for the Company beginning January 1, 2019 for both interim and annual reporting periods. The Company does not believe that the adoption of ASU 2016-16 will have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"), which amends the guidance in ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of ASU 2016-15 is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. ASU 2016-15 adds or clarifies guidance on eight cash flow issues, including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or certain other debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for the Company beginning January 1, 2018 for both interim and annual reporting periods, with early adoption permitted. Entities must apply the guidance retrospectively to all periods presented but may apply it prospectively from the earliest date practicable if retrospective application would be impracticable. The Company does not expect the adoption of ASU 2016-15 will have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instrument*s ("ASU 2016-13"), which adds an impairment model that is based on expected losses rather than incurred losses. Under ASU 2016-13, an entity recognizes as an allowance its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. ASU 2016-13 is effective for the Company beginning January 1, 2020 for both interim and annual reporting periods, with early adoption permitted. The Company does not expect the adoption of ASU 2016-13 will have a material impact on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"), which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 became effective for the Company beginning January 1, 2017 for both interim and annual reporting periods. Under ASU 2016-09, the Company will now recognize unrealized excess tax benefits. Due to the Company's full valuation allowance on its federal and state income taxes, the adoption of ASU 2016-09 did not have a material impact on the Company's accounting for income taxes. Without the valuation allowance, the Company would have recognized an increased deferred tax asset approximating $5 million. The Company has elected to continue to apply forfeiture rates to its expense attribution related to stock options, restricted stock awards and restricted stock units, as the Company believes that such continued application results in more accurate expense attribution over the life of these equity grants.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842) Section A - Leases: Amendments to the FASB Accounting Standards Codification* ("ASU 2016-02"), its new standard on accounting for leases. ASU 2016-02 introduces a lessee model that brings most leases onto the balance sheet. The new standard also aligns many of the underlying principles of the new lessor model with those in ASC 606, the FASB's new revenue recognition standard (i.e., those related to evaluating when profit can be recognized). Furthermore, ASU 2016-02 addresses other concerns related to the current leases model. For example, ASU 2016-02 eliminates the current GAAP requirement for an entity to use bright-line tests in determining lease classification. ASU 2016-02 is effective for the Company for both interim and annual periods beginning January 1, 2019. Upon adoption of ASU 2016-02, the Company will recognize lease obligations for the right to use these assets in connection with its existing lease agreements. The Company is currently assessing the potential impact of the adoption of ASU 2016-02 on its consolidated financial statements and accordingly, such amounts to be recognized in the balance sheet have yet to be determined.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory* ("ASU 2015-11"), which simplifies the measurement of inventory by requiring entities to measure most inventory at the lower of cost and net realizable value, replacing the previous requirement to measure most inventory at the lower of cost or market. ASU 2015-11 does not apply to inventories that are measured by using either the last-in, first-out method or the retail inventory method. ASU 2015-11 became effective for the Company for both interim and annual reporting periods beginning January 1, 2017. The adoption of ASU 2015-11 did not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”), its final standard on revenue from contracts with customers, along with additional ASUs which, among other things, clarified the implementation of the new revenue guidance and delayed the adoption by one year, to January 1, 2018 (collectively, the "New Revenue Standard"). The New Revenue Standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the revenue model to contracts within its scope, an entity identifies the contract(s) with a customer, identifies the performance obligations in the contract, determines the transaction price, allocates the transaction price to the performance obligations in the contract and recognizes revenue when (or as) the entity satisfies a performance obligation. The New Revenue Standard applies to all contracts with customers that are within the scope of other topics in the ASC. Certain of the New Revenue Standard's provisions also apply to transfers of nonfinancial assets, including in-substance nonfinancial assets that are not an output of an entity’s ordinary activities (i.e., property, plant and equipment; real estate; or intangible assets). Existing accounting guidance applicable to these transfers has been amended or superseded. The Company continues to assess the potential impact of the adoption of the New Revenue Standard on its consolidated financial statements, and currently believes that such adoption will, in general, accelerate the recognition of revenue (i.e., more revenue will be recognized upon delivery than is currently recognized ratably or upon payment) compared to the current standards in effect, in particular, sales of software-only products and sales to customers currently accounted for on a cash basis. The Company currently expects to adopt the New Revenue Standard using the modified retrospective option, and is in the process of updating its revenue recognition software to comply with the New Revenue Standard. Under the modified retrospective method, the Company will apply the New Revenue Standard to all contracts not yet completed as of January 1, 2018, recognizing in beginning Accumulated deficit an adjustment for the cumulative effect of the change and providing additional disclosures comparing results to those as if the Company were still following the previous accounting standards. The Company currently expects that the adjustment to Accumulated deficit will be approximately $1 million.

(2) BUSINESS ACQUISITION

Acquisition of Taqua, LLC

On September 26, 2016 (the "Taqua Acquisition Date"), the Company acquired Taqua, LLC ("Taqua"), a leading supplier of IP communications systems, applications and services to mobile and fixed operators. Taqua enables the transformation of software-based service provider networks to deliver next-generation voice, video and messaging services, including VoIP, VoWiFi and Voice over Long-Term Evolution ("VoLTE"). The acquisition of Taqua has, among other things, accelerated the Company's mobile strategy by adding a Virtualized Mobile Core ("VMC") Platform and an IP Multimedia Subsystem ("IMS") Service Core and expanded the Company's fixed portfolio by adding a Class 5 Softswitch (the T7000) for network transformation projects and a Multimedia Controller used in IP Peering applications (the T7100), both of which are complementary to Sonus' current product offerings. In consideration for the acquisition of Taqua, Sonus paid $19.9 million in cash to the sellers on the Taqua Acquisition Date, net of cash acquired. The Company also entered into an Earn-Out Agreement, dated as of September 26, 2016, with Taqua Holdings, LLC and Jeffrey L. Brawner, the seller representative in the transaction, under which there is the potential for additional cash payments of up to $65.0 million in the aggregate to the sellers if certain annual revenue thresholds are exceeded as measured annually through 2020. The Company had initially recorded $10.0 million of contingent consideration as of the Taqua Acquisition Date, with the estimate based on historical sales and probability weighted cash flows related to forecasted sales. During the fourth quarter of 2016, the Company reassessed the historical and updated forecasted sales and accordingly, reversed the previous estimated contingent consideration such that as of both September 30, 2017 and December 31, 2016, no incremental contingent consideration was recorded.

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

The Company finalized its valuation of the identifiable intangible assets in the second quarter of 2017. During both the first quarter of 2017 and the fourth quarter of 2016, the Company recorded changes to the initial preliminary purchase price allocation. The primary adjustments in the first quarter of 2017 were a $0.4 million increase to current liabilities and a $0.1 million increase to noncurrent liabilities. The primary adjustments recorded in the fourth quarter of 2016 were the reversal of the $10.0 million of previously recorded contingent consideration discussed above, a reduction of $12.1 million to the developed technology intangible asset and an increase of $5.5 million to the customer relationship intangible assets. These adjustments, as well as other immaterial adjustments to the balance sheet accounts, resulted in a net reduction to goodwill of $2.2 million since September 30, 2016. Based on this final purchase price allocation, the Company recorded $9.6 million of goodwill, which is primarily due to expected synergies between the combined companies and expanded market opportunities resulting from the expanded product offering portfolio. The goodwill is deductible for tax purposes.

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

Fair value of consideration transferred:		
Cash, net of cash acquired	$	19,919
Fair value of assets acquired and liabilities assumed:		
Current assets	$	3,347
Property and equipment		1,478
Intangible assets:		
Developed technology		2,100
Customer relationships		9,510
Goodwill		9,581
Other noncurrent assets		23
Current liabilities		(5,435)
Long-term liabilities		(685)
	$	19,919

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

The Company has not provided pro forma financial information, as the historical amount are not significant to the Company's consolidated financial statements.

Acquisition-Related Expenses

Acquisition-related expenses include those expenses related to acquisitions that would otherwise not have been incurred by the Company. These expenses include professional, services and other costs, such as legal, audit, consulting, paying agent and other related expenses. The expense recorded in the three months ended September 30, 2017 relates to the pending merger with GENBAND. The expense recorded in the nine months ended September 30, 2017 primarily relates to the pending merger with GENBAND, plus approximately $56,000 of costs related to the Taqua acquisition. The acquisition-related expense recorded in both the three and nine months ended September 30, 2016 relates to the acquisition of Taqua. The Company's acquisition-related expense for the three and nine months ended September 30, 2017 and 2016 are as follows (in thousands):

	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Professional and services fees	$ 1,543	$ 951	$ 6,278	$ 951

(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 earnings 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 earnings (loss) per share are as follows (in thousands):

	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Weighted average shares outstanding—basic	49,753	49,402	49,472	49,436
Potential dilutive common shares	378	—	—	—
Weighted average shares outstanding—diluted	50,131	49,402	49,472	49,436

The Company has excluded 5.2 million weighted shares underlying options to purchase shares of the Company's common stock from the computation of diluted earnings per share for the three months ended September 30, 2017 because the options' exercise prices were greater than the average market price for the common stock and their effect would have been antidilutive. Options to purchase the Company's common stock and unvested shares of restricted and performance-based stock aggregating 7.4 million shares have not been included in the computation of diluted loss per share for the nine months ended September 30, 2017 because their effect would have been antidilutive. Options to purchase the Company's common stock, unvested shares of restricted and performance-based stock and shares in connection with future purchases under the Company's Amended and Restated 2000 Employee Stock Purchase Plan, as amended (the "ESPP"), totaling 8.2 million shares for the three and nine months ended September 30, 2016 have not been included in the computation of diluted loss per share because their effect would have been antidilutive.

(4) CASH EQUIVALENTS AND INVESTMENTS

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

During the nine months ended September 30, 2016, the Company sold $3.8 million of its available-for-sale securities and recognized gross losses aggregating $18,000, which is included as a component of Other income, net, in the Company's condensed consolidated statement of operations for that period. The Company did not sell any of its available-for-sale securities in the nine months ended September 30, 2017. Investments with continuous unrealized losses for one year or greater at September 30, 2017 were nominal. However, the Company currently intends to liquidate approximately $50 million of marketable securities in the fourth quarter of 2017 in connection with the cash payments due for the pending merger with GENBAND. As a result of this planned liquidation, the Company expects to recognize losses of approximately $60,000.

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 September 30, 2017.

The amortized cost, gross unrealized gains and losses and fair value of the Company's marketable debt securities and investments at September 30, 2017 and December 31, 2016 were comprised of the following (in thousands):

	September 30, 2017			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Cash equivalents	$ 21,114	$ —	$ —	$ 21,114
Marketable securities				
Municipal obligations	$ 1,085	$ —	$ —	$ 1,085
U.S. government agency notes	26,395	—	(43)	26,352
Corporate debt securities	23,163	—	(28)	23,135
Certificates of deposit	2,700	—	—	2,700
	$ 53,343	$ —	$ (71)	$ 53,272
Investments				
U.S. government agency notes	$ 11,036	$ —	$ (23)	$ 11,013
Corporate debt securities	12,157	2	(20)	12,139
Certificates of deposit	3,866	—	—	3,866
	$ 27,059	$ 2	$ (43)	$ 27,018

	December 31, 2016			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Cash equivalents	$ 6,619	$ —	$ —	$ 6,619
Marketable securities				
Municipal obligations	$ 3,264	$ —	$ (3)	$ 3,261
U.S. government agency notes	16,477	3	(3)	16,477
Corporate debt securities	41,893	4	(45)	41,852
Certificates of deposit	246	—	—	246
	$ 61,880	$ 7	$ (51)	$ 61,836
Investments				
U.S. government agency notes	$ 19,473	$ 3	$ (39)	$ 19,437
Corporate debt securities	10,520	—	(44)	10,476
Certificates of deposit	2,458	—	—	2,458
	$ 32,451	$ 3	$ (83)	$ 32,371

The Company's available-for-sale debt securities classified as Investments in the condensed consolidated balance sheets at September 30, 2017 and December 31, 2016 had maturity dates after one year but within approximately two years or less from the balance sheet date.

Fair Value Hierarchy

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

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

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

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

The following table shows the fair value of the Company's financial assets at September 30, 2017 and December 31, 2016. These financial assets are comprised of the Company's available-for-sale debt securities and reported under the captions Cash and cash equivalents, Marketable securities and Investments in the condensed consolidated balance sheets (in thousands):

		Fair value measurements at September 30, 2017 using:		
	Total carrying value at September 30, 2017	**Quoted prices in active markets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Cash equivalents	$ 21,114	$ 21,114	$ —	$ —
Marketable securities				
Municipal obligations	$ 1,085	$ —	$ 1,085	$ —
U.S. government agency notes	26,352	—	26,352	—
Corporate debt securities	23,135	—	23,135	—
Certificates of deposit	2,700	—	2,700	—
	$ 53,272	$ —	$ 53,272	$ —
Investments				
U.S. government agency notes	$ 11,013	$ —	$ 11,013	$ —
Corporate debt securities	12,139	—	12,139	—
Certificates of deposit	3,866	—	3,866	—
	$ 27,018	$ —	$ 27,018	$ —

	Total carrying value at December 31, 2016	Fair value measurements at December 31, 2016 using: Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents	$ 6,619	$ 6,619	$ —	$ —
Marketable securities				
Municipal obligations	$ 3,261	$ —	$ 3,261	$ —
U.S. government agency notes	16,477	—	16,477	—
Corporate debt securities	41,852	—	41,852	—
Certificates of deposit	246	—	246	—
	$ 61,836	$ —	$ 61,836	$ —
Investments				
U.S. government agency notes	$ 19,437	$ —	$ 19,437	$ —
Corporate debt securities	10,476	—	10,476	—
Certificates of deposit	2,458	—	2,458	—
	$ 32,371	$ —	$ 32,371	$ —

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

(5) INVENTORY

Inventory at September 30, 2017 and December 31, 2016 consists of the following (in thousands):

	September 30, 2017	December 31, 2016
On-hand final assemblies and finished goods inventories	$ 14,465	$ 15,346
Deferred cost of goods sold	3,317	4,237
	17,782	19,583
Less current portion	(16,282)	(18,283)
Noncurrent portion (included in Other assets)	$ 1,500	$ 1,300

(6) INTANGIBLE ASSETS AND GOODWILL

The Company's intangible assets at September 30, 2017 and December 31, 2016 consist of the following (dollars in thousands):

September 30, 2017	Weighted average amortization period (years)	Cost	Accumulated amortization	Net carrying value
Developed technology	6.54	$ 34,980	$ 21,222	$ 13,758
Customer relationships	5.78	19,540	9,946	9,594
Internal use software	3.00	730	730	—
	6.23	$ 55,250	$ 31,898	$ 23,352

December 31, 2016	Weighted average amortization period (years)	Cost	Accumulated amortization	Net carrying value
Developed technology	6.54	$ 34,980	$ 16,453	$ 18,527
Customer relationships	5.78	19,540	7,870	11,670
Internal use software	3.00	730	730	—
	6.23	$ 55,250	$ 25,053	$ 30,197

Amortization expense for intangible assets for the three and nine months ended September 30, 2017 and 2016 was as follows (in thousands):

	Three months ended		Nine months ended		
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016	Statement of operations classification
Developed technology	$ 1,602	$ 1,455	$ 4,769	$ 4,537	Cost of revenue - product
Customer relationships	691	319	2,076	956	Sales and marketing
	$ 2,293	$ 1,774	$ 6,845	$ 5,493	

Estimated future amortization expense for the Company's intangible assets at September 30, 2017 is as follows (in thousands):

Years ending December 31,	
Remainder of 2017	$ 2,293
2018	6,615
2019	5,608
2020	4,166
2021	2,395
Thereafter	2,275
	$ 23,352

The changes in the carrying value of the Company's goodwill in the nine months ended September 30, 2017 were as follows (in thousands):

Balance at January 1, 2017	
Goodwill	$ 52,499
Accumulated impairment losses	(3,106)
	49,393
Purchase accounting adjustments - Taqua	498
Balance at September 30, 2017	$ 49,891
Balance at September 30, 2017	
Goodwill	$ 52,997
Accumulated impairment losses	(3,106)
	$ 49,891

The changes in the carrying value of the Company's goodwill in the nine months ended September 30, 2016 were as follows (in thousands):

Balance at January 1, 2016	
Goodwill	$ 43,416
Accumulated impairment losses	(3,106)
	40,310
Acquisition of Taqua	11,826
Balance at September 30, 2016	$ 52,136
Balance at September 30, 2016	
Goodwill	$ 55,242
Accumulated impairment losses	(3,106)
	$ 52,136

(7) ACCRUED EXPENSES

Accrued expenses at September 30, 2017 and December 31, 2016 consist of the following (in thousands):

	September 30, 2017	December 31, 2016
Employee compensation and related costs	$ 14,941	$ 15,879
Other	8,830	10,007
	$ 23,771	$ 25,886

(8) RESTRUCTURING ACCRUAL

2016 Restructuring Initiative

In July 2016, the Company announced a program to further accelerate its investment in new technologies as the communications industry migrates to a cloud-based architecture (the "2016 Restructuring Initiative"), and that it planned to utilize most of the savings from this initiative to shift headcount toward new strategic initiatives, such as new products and an expanded go-to-market footprint in selected geographies and discrete vertical markets. The Company recorded $2.0 million of restructuring expense in the aggregate in connection with this initiative, comprised of $1.9 million for severance and related costs and $0.1 million to abandon its facility in Rochester, New York (the "Rochester Facility"). The actions under the 2016 Restructuring Initiative have been implemented and accordingly, the Company does not expect to record additional expense in connection with this initiative. The amounts accrued for severance and related costs had been fully paid by the end of the third quarter of 2017. The Company expects that the amounts accrued for facilities will be paid by the end of October 2019, when the lease on the Rochester Facility expires.

In connection with the 2016 Restructuring Initiative, the Company recorded $0.5 million of restructuring expense in the nine months ended September 30, 2017. The amount recorded in the nine months ended September 30, 2017 is comprised of $0.4 million for severance and related costs and $0.1 million related to the Company's Rochester Facility. The Company did not record restructuring expense in the three months ended September 30, 2017. A summary of the 2016 Restructuring Initiative accrual activity for the nine months ended September 30, 2017 is as follows (in thousands):

	Balance at January 1, 2017	Initiatives charged to expense	Adjustments for changes in estimate	Cash payments	Balance at September 30, 2017
Severance	$ 497	$ 405	$ (26)	$ (876)	$ —
Facilities	—	126	—	(22)	104
	$ 497	$ 531	$ (26)	$ (898)	$ 104

Taqua Restructuring Initiative

In connection with the acquisition of Taqua, the Company's management approved a restructuring plan in the third quarter of 2016 to eliminate certain redundant positions within the combined companies. On October 24, 2016, the Audit Committee of the Company's Board of Directors approved a broader Taqua restructuring plan related to headcount and redundant facilities (both restructuring plans, the "Taqua Restructuring Initiative"). The Company recorded $1.8 million of restructuring expense in the aggregate in connection with this initiative, comprised of $1.2 million for severance and related costs and $0.6 million related to the elimination of redundant facilities. The actions under the Taqua Restructuring Initiative have been implemented and accordingly, the Company does not expect to record additional expense in connection with this initiative. The amounts accrued for severance and related costs had been fully paid by the end of the third quarter of 2017. The Company expects that the amounts accrued for facilities will be paid by the end of 2018.

In connection with the Taqua Restructuring Initiative, the Company recorded $0.6 million of restructuring expense in the nine months ended September 30, 2017, comprised of $0.2 million for severance and related costs and $0.4 million related to redundant facilities. The Company did not record restructuring expense in the three months ended September 30, 2017. A summary of the Taqua Restructuring Initiative accrual activity for the nine months ended September 30, 2017 is as follows (in thousands):

	Balance at January 1, 2017	Initiatives charged to expense	Adjustments for changes in estimate	Cash payments	Balance at September 30, 2017
Severance	$ 384	$ 245	$ (49)	$ (580)	$ —
Facilities	218	370	—	(275)	313
	$ 602	$ 615	$ (49)	$ (855)	$ 313

2015 Restructuring Initiative

To better align the Company's cost structure to its current revenue expectations, in April 2015, the Company announced a cost reduction review and restructuring initiative (the "2015 Restructuring Initiative"). A summary of the 2015 Restructuring Initiative accrual activity for the nine months ended September 30, 2017 is as follows (in thousands):

	Balance at January 1, 2017	Initiatives charged to expense	Adjustments for changes in estimate	Cash payments	Balance at September 30, 2017
Severance	$ 168	$ —	$ —	$ (168)	$ —

Balance Sheet Classification

At September 30, 2017, the Company's restructuring accruals aggregated $0.4 million, of which $0.2 million was included in Other long-term liabilities and represented future lease payments on restructured facilities. At December 31, 2016, the Company's restructuring accruals aggregated $1.3 million, of which approximately $62,000 was included in Other long-term liabilities and represented future lease payments on restructured facilities. The remainder of the restructuring accruals at both September 30, 2017 and December 31, 2016 are included in Accrued expenses in the condensed consolidated balance sheets.

(9) DEBT

The Company maintained a credit agreement by and among the Company, as Borrower, Bank of America, N.A. ("Bank of America"), as Administrative Agent, Swing Line Lender and L/C Issuer, and the other lenders from time to time party thereto entered into on June 27, 2014 (the "Credit Agreement"), which agreement was amended by a First Amendment to Credit Agreement on June 26, 2015 and further amended by a Second Amendment to Credit Agreement on June 13, 2016 (the "Amended Credit Agreement"). The obligations of the Company under the Amended Credit Agreement were guaranteed by Sonus International, Inc., Sonus Federal, Inc., Network Equipment Technologies, Inc. and Taqua (collectively with the Company, the "Loan Parties") pursuant to a Master Continuing Guaranty and were secured by the assets of the Loan Parties pursuant to a Security and Pledge Agreement. The credit facility expired by its terms on June 30, 2017 and was not renewed. The Company did not have any amounts outstanding under the Amended Credit Agreement at December 31, 2016.

(10) COMMON STOCK REPURCHASES

On July 29, 2013, the Company announced that its Board of Directors had authorized a stock buyback program to repurchase up to $100 million of the Company's common stock from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares repurchased will be determined by the Company's management based on its evaluation of market conditions and other factors. The Company may elect to implement a 10b5-1 repurchase program, which would permit shares to be repurchased when the Company might otherwise be precluded from doing so under insider trading laws. The Company has not implemented such a 10b5-1 repurchase program to date. The stock buyback program may be suspended or discontinued at any time. The stock buyback program is funded with the Company's working capital. The Company did not repurchase any shares during the nine months ended September 30, 2017. During the nine months ended September 30, 2016, the Company spent $7.1 million, including transaction fees, to repurchase and retire 0.9 million shares of its common stock under the stock buyback program. At September 30, 2017, the Company had $5.4 million remaining under the stock buyback program for future repurchases.

(11) STOCK-BASED COMPENSATION PLANS

Amended and Restated Stock Incentive Plan

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

At its 2017 annual meeting of stockholders held on June 9, 2017 (the "2017 Annual Meeting"), the Company's stockholders approved amendments to the Plan including, among other things, to:

- Increase the aggregate number of shares of the Company's common stock authorized for issuance under the Plan by an additional 900,000 shares;
- Make the Plan more explicit by providing that any dividends on unvested restricted stock or with respect to shares of common stock granted under restricted stock units and other stock unit awards will be paid to a participant only if and when such shares become free from the restrictions on transferability and forfeitability that apply to such shares and that any dividend equivalents with respect to restricted stock units and other stock unit awards will be subject to the same vesting conditions and restrictions on transfer and forfeitability applicable to the underlying award with respect to which it is paid. No interest will be paid on any such equivalents or dividend equivalents;
- Explicitly require a participant who accepts an award under the Plan to be bound by any clawback policy that the Company has in effect or may adopt in the future; and
- Eliminate the requirement that each share of stock subject to an award of restricted stock, restricted stock units, performance awards or other stock unit awards (collectively, "full value awards") be counted against the share reserve as 1.50 shares for every one share subject to such award. This change applies to all full value awards from and after June 9, 2017, the date of the Annual Meeting. Shares of common stock subject to awards that were granted under any prior ratio that applied at the time such awards were granted will continue to return to the Plan upon forfeiture of such awards at the previous applicable ratio.

Executive Equity Arrangements

On March 31, 2017, the Company granted an aggregate of 165,000 PSUs with both market and service conditions to five of its executives (the "2017 PSUs"). The terms of the 2017 PSUs are such that up to one-third of the shares subject to the 2017 PSUs will vest on each of the first, second and third anniversaries of the date of grant (collectively, the "2017 PSU Vesting Dates") to the extent of achievement of the Company's total shareholder return ("TSR") compared to the TSR of the companies included in the NASDAQ Telecommunications Index for the same fiscal year, measured by the Compensation Committee after each of the 2017, 2018 and 2019 fiscal years, respectively (as used in this paragraph, each, a "Performance Period"). The shares determined to be earned will vest on the anniversary of the grant date following each Performance Period. Shares subject to the 2017 PSUs that fail to be earned will be forfeited. The 2017 PSUs include a market condition that required the use of a Monte Carlo simulation approach to model future stock price movements based upon the risk-free rate of return, the volatility of each entity, and the pair-wise covariance between each entity. These results were then used to calculate the grant date fair values of the 2017 PSUs. Because the 2017 PSUs have market conditions, the Company is required to record expense for the 2017 PSUs through the final 2017 PSU Vesting Date of March 31, 2020, regardless of the number of shares that are ultimately earned.

On April 1, 2016, the Company granted an aggregate of 131,250 PSUs with both market and service conditions to six of its executives (the "2016 PSUs"). The terms of the 2016 PSUs are such that up to one-third of the shares subject to the 2016 PSUs will vest on each of the first, second and third anniversaries of the date of grant (collectively, the "2016 PSU Vesting Dates") to the extent of achievement of the Company's TSR compared to the TSR of the companies included in the NASDAQ Telecommunications Index for the same fiscal year, measured by the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") after each of the 2016, 2017 and 2018 fiscal years, respectively (as used in this paragraph, each, a "Performance Period"). The shares determined to be earned will vest on the anniversary of the grant date following each Performance Period. Shares subject to the 2016 PSUs that fail to be earned will be forfeited. The 2016 PSUs include a market condition that required the use of a Monte Carlo simulation approach to model future stock price movements based upon the risk-free rate of return, the volatility of each entity, and the pair-wise covariance between each entity. These results were then used to calculate the grant date fair values of the 2016 PSUs. Because the 2016 PSUs have market conditions, the Company is required to record expense for the 2016 PSUs through the final 2016 PSU Vesting Date of April 1, 2019, regardless of the number of shares that are ultimately earned. In February 2017, the Compensation Committee determined that the performance metrics for the 2016 PSUs for the 2016 Performance Period had been achieved at the 90.4% level, and accordingly, 24,106 shares in the aggregate were released to the four executives holding such outstanding grants on March 16, 2017. The unearned shares relating to the 2016 Performance Period, aggregating 2,560 shares, were forfeited on March 16, 2017. These amounts are included in the performance-based units table below.

On March 16, 2015, the Company granted an aggregate of 131,250 PSUs with both market and service conditions to eight of its executives (the "2015 PSUs"). In 2015, subsequent to the grant date, two executives separated from the Company and, in accordance with their respective employment agreements with the Company, the Company accelerated the vesting of certain unvested 2015 PSUs. The terms of the 2015 PSUs are such that up to one-third of the shares subject to the 2015 PSUs will vest on each of the first, second and third anniversaries of the date of grant (collectively, the "2015 PSU Vesting Dates") to the extent of achievement of the Company's TSR compared to the TSR of the companies included in the NASDAQ Telecommunications Index for the same Performance Period, measured by the Compensation Committee at the end of each of the 2015, 2016 and 2017 fiscal years, respectively (as used in this paragraph, each, a "Performance Period"). The shares determined to be earned will vest on the anniversary of the grant date following each Performance Period. Shares subject to the 2015 PSUs that fail to be earned will be forfeited. The 2015 PSUs include a market condition that required the use of a Monte Carlo simulation approach to calculate the grant date fair values of the 2015 PSUs. Because the 2015 PSUs have market conditions, the Company is required to record expense for the 2015 PSUs through the final 2015 PSU Vesting Date of March 16, 2018, regardless of the number of shares that are ultimately earned, if any. In February 2017, the Compensation Committee determined that the performance metrics for the 2015 PSUs for the 2016 Performance Period had been achieved at the 76.0% level, and accordingly, 23,750 shares in the aggregate were released to the four executives holding such outstanding grants on April 1, 2017. The unearned shares relating to the 2016 Performance Period, aggregating 7,500 shares, were forfeited on April 1, 2017. These amounts are included in the performance-based units table below.

Stock Options

The activity related to the Company's outstanding stock options for the nine months ended September 30, 2017 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, 2017	5,610,106	$ 15.73		
Granted	6,480	$ 6.53		
Exercised	(31,643)	$ 4.70		
Forfeited	(35,107)	$ 13.79		
Expired	(397,690)	$ 23.57		
Outstanding at September 30, 2017	5,152,146	$ 15.19	4.81	$ 177
Vested or expected to vest at September 30, 2017	5,130,390	$ 15.21	4.79	$ 172
Exercisable at September 30, 2017	4,824,340	$ 15.25	4.63	$ 141

The grant date fair values of options to purchase common stock granted in the three and nine months ended September 30, 2017 were estimated using the Black-Scholes valuation model with the following assumptions:

	Three months ended September 30, 2017	Nine months ended September 30, 2017
Risk-free interest rate	1.81%	1.81% - 1.95%
Expected dividends	—	—
Weighted average volatility	50.7%	51.2%
Expected life (years)	5.0	5.0

Additional information regarding the Company's stock options for the three and nine months ended September 30, 2017 is as follows:

	Three months ended September 30, 2017		Nine months ended September 30, 2017	
Weighted average grant date fair value of stock options granted	$	3.11	$	3.00
Total intrinsic value of stock options exercised (in thousands)	$	17	$	80
Cash received from the exercise of stock options (in thousands)	$	59	$	149

Restricted Stock Awards and Units

The activity related to the Company's RSAs for the nine months ended September 30, 2017 is as follows:

	Shares	Weighted Average Grant Date Fair Value	
Unvested balance at January 1, 2017	2,030,028	$	9.69
Granted	735,912	$	6.86
Vested	(820,632)	$	10.37
Forfeited	(25,426)	$	13.02
Unvested balance at September 30, 2017	1,919,882	$	8.28

The activity related to the Company's RSUs for the nine months ended September 30, 2017 is as follows:

	Shares	Weighted Average Grant Date Fair Value	
Unvested balance at January 1, 2017	110,219	$	11.95
Granted	—	$	—
Vested	(36,694)	$	7.04
Forfeited	(11,628)	$	8.71
Unvested balance at September 30, 2017	61,897	$	7.05

The total fair value of shares of restricted stock granted under RSAs and RSUs that vested during the nine months ended September 30, 2017 was $8.8 million.

Performance-Based Stock Units

The activity related to the Company's PSUs for the nine months ended September 30, 2017 is as follows:

	Shares	Weighted Average Grant Date Fair Value	
Unvested balance at January 1, 2017	147,085	$	12.11
Granted	165,000	$	8.41
Vested	(47,856)	$	13.04
Forfeited	(10,060)	$	11.87
Unvested balance at September 30, 2017	254,169	$	9.54

The total fair value of shares of restricted stock granted under PSUs that vested during the nine months ended September 30, 2017 was $0.6 million.

The Company did not have outstanding PSAs during the nine months ended September 30, 2017 or at December 31, 2016.

Employee Stock Purchase Plan

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

In May 2017, the Compensation Committee determined to suspend all offering periods under the ESPP, effective September 1, 2017 until such time after the closing of the pending merger with GENBAND as the Compensation Committee determines is best in its sole discretion.

Stock-Based Compensation

The condensed consolidated statements of operations include stock-based compensation for the three and nine months ended September 30, 2017 and 2016 as follows (in thousands):

	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Product cost of revenue	$ 75	$ 95	$ 261	$ 259
Service cost of revenue	199	331	777	985
Research and development	1,095	1,298	3,650	3,687
Sales and marketing	871	3,048	1,690	5,292
General and administrative	1,647	1,636	5,009	5,241
	$ 3,887	$ 6,408	$ 11,387	$ 15,464

During the three months ended March 31, 2017, the Company reversed $1.0 million of incremental expense to correct an error in 2016 related to the acceleration of certain stock awards held by an executive who separated from the Company in 2016. Management had reviewed and considered the impact of the error and determined that it was not material to the Company's consolidated financial results for the third and fourth quarters of 2016, as well as the 2016 fiscal year. Management has also determined that the correction of this error is not material to the results of operations for the 2017 completed reporting periods.

There is no income tax benefit for employee stock-based compensation expense for the nine months ended September 30, 2017 or September 30, 2016 due to the valuation allowance recorded.

At September 30, 2017, there was $15.4 million, net of expected forfeitures, of unrecognized stock-based compensation expense related to unvested stock options, awards, units and ESPP shares. This expense is expected to be recognized over a weighted average period of approximately two years.

In connection with the pending merger with GENBAND, the Company accelerated the vesting of all outstanding stock options and certain outstanding RSAs, RSUs and PSUs. As a result, the Company expects to record incremental stock-based compensation expense in the fourth quarter of 2017 related to these accelerations. Upon consummation of the merger, the shares underlying the accelerated portion of the RSAs, RSUs and PSUs will be issued and the vesting schedules for the remaining unvested RSAs, RSUs and PSUs will be adjusted to reflect this acceleration. Option holders had an opportunity to exercise their stock options, including the accelerated stock options, from October 20, 2017 through October 24, 2017, after which date all remaining outstanding stock options, with certain exceptions, were canceled.

(12) MAJOR CUSTOMERS

The following customers contributed 10% or more of the Company's revenue in at least one of the three or nine month periods ended September 30, 2017 and 2016:

	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Verizon Communications Inc.	16%	*	15%	*
AT&T Inc.	11%	12%	10%	13%

* Represents less than 10% of revenue

At September 30, 2017, two customers accounted for 10% or more of the Company's accounts receivable balance, representing approximately 30% of the Company's accounts receivable balance in the aggregate. At December 31, 2016, no customer accounted for 10% or more of the Company's accounts receivable balance. The Company performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable. The Company maintains an allowance for doubtful accounts and such losses have been within management's expectations.

(13) GEOGRAPHIC INFORMATION

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

	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
United States	75%	70%	71%	69%
Europe, Middle East and Africa	8	14	11	13
Japan	10	7	11	10
Other Asia Pacific	4	5	4	5
Other	3	4	3	3
	100%	100%	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.

(14) INCOME TAXES

The Company's income tax provisions for the nine months ended September 30, 2017 and 2016 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 nine months ended September 30, 2017 and 2016 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. Included in the Company's provision for the nine months ended September 30, 2016 is a discrete charge of $0.7 million related to an uncertain tax position of the Company's subsidiary in France.

(15) COMMITMENTS AND CONTINGENCIES

On July 19, 2017, Taqua Holdings, LLC ("Holdings") filed a lawsuit against the Company, GENBAND, Taqua and several of the Company's merger-related subsidiaries and GENBAND Holdings' merger-related holding companies (collectively, the "Holdings Lawsuit Defendants") in Texas state court, District of Dallas County (Case No. DC-17-08630) based on the parties' Earn-Out Agreement (the "Holdings Complaint") which expressly provides that the Company is to have "the absolute right and sole and absolute discretion to operate and otherwise make decisions with respect to the conduct of the Business." The lawsuit alleges that: (i) the Company purportedly breached the Earn-Out Agreement by implementing a restructuring plan, the Taqua Restructuring Initiative, that was allegedly intended to undermine Taqua's business and the Company's payment obligation; and (ii) the Company purportedly acquired Taqua for the purpose of eliminating Taqua as a competitor before the Company's pending merger with GENBAND (the "GENBAND Merger"), and that the Company never intended to promote Taqua products.

The Holdings Complaint purported to seek monetary damages for the Company's alleged breach of the Earn-Out Agreement (which is described in Note 2 of this Quarterly Report on Form 10-Q and a copy of which is filed as Exhibit 10.31 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016) and an injunction of both the Taqua Restructuring Initiative and the GENBAND Merger.

On August 17, 2017, Holdings filed a Motion for Expedited Discovery. On August 18, 2017, the Company filed its Answer and Motion to Compel Arbitration and Stay Proceedings, requesting the Texas state court stay the proceedings in favor of arbitration, as provided by the terms of the Earn-Out Agreement. On August 22, 2017, Holdings filed its Opposition to the Company's Motion to Compel Arbitration and Stay Proceedings. Also on August 22, 2017, the Company filed its Response to Holdings' Motion for Expedited Discovery. On August 24, 2017, the Company filed a Reply in Support of its Motion to Compel Arbitration and Stay Proceedings. On August 25, 2017, a hearing was held on: (i) Holdings' Motion for Expedited Discovery and (ii) the Company's Motion to Compel Arbitration and Stay Proceedings. On August 29, 2017, the Texas state court denied Holdings' Motion for Expedited Discovery and granted the Company's Motion to Compel Arbitration and Stay Proceedings. Therefore, as of August 29, 2017, this lawsuit is stayed until further order of the court. Pursuant to the Membership Interest Purchase Agreement between the parties, dated September 26, 2016, the Company and Holdings have initiated non-binding mediation in an attempt to resolve this dispute. The Company does not expect the results of this suit to have a material adverse effect on its business or consolidated financial statements.

The Company is fully cooperating with an SEC inquiry regarding the development and issuance of the Company's first quarter 2015 revenue and earnings guidance. Based on recent communications with the SEC's Division of Enforcement (the "Staff"), the Company currently expects the Staff to seek approval of the SEC commissioners to initiate proceedings alleging securities law violations, including violations of Section 10(b) and 17(a) of the Exchange Act with respect to the development and issuance of the Company's first quarter 2015 revenue and earnings guidance which the Staff believes, based on its assessment of the matter, would warrant a $3.1 million fine against the Company. The Company believes the allegations are without merit and intends to vigorously contest the matter and the Staff's view. The Company recorded $1.6 million in the three months ended September 30, 2017 for potential fines in connection with this investigation.

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

(16) SUBSEQUENT EVENTS

On October 26, 2017, the Company held the Special Stockholders' Meeting, at which the Company's stockholders voted to, among other things, adopt the Merger Agreement. The Company expects that the Mergers will be consummated on Friday, October 27, 2017.

On October 23, 2017, in connection with the pending merger with GENBAND, the Company committed to a restructuring initiative to reduce its post-transaction workforce by approximately 350 people, or approximately 15%, of combined Sonus and GENBAND employees worldwide. Cash expenditures of approximately $10 million to $12 million are anticipated to be incurred for severance and related costs. The actions are expected to be substantially completed by the end of 2018. Annual cash savings of approximately $45 million are anticipated as a result of this restructuring initiative.

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, 2016, which was filed with the U.S. Securities and Exchange Commission on February 27, 2017.

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 secure and unify their real-time communications infrastructures. We help the world's leading communications service providers and enterprises embrace the next generation of Session Initiation Protocol ("SIP") and 4G/LTE (Long-Term Evolution)-based solutions, including Voice over Internet Protocol ("VoIP"), Voice over WiFi ("VoWiFi"), video and Unified Communications ("UC") by securing and enabling reliable and scalable Internet Protocol ("IP") networks. Our products include session border controllers ("SBCs"), diameter signaling controllers ("DSCs") and VoWiFi solutions, which are supported by a global services team with experience in design, deployment and maintenance of some of the world's largest IP networks.

Our solutions provide a secure way for our customers to link and leverage multivendor, multiprotocol communications systems and applications across their networks, around the world and in a rapidly changing ecosystem of IP-enabled devices such as smartphones and tablets. Our solutions help realize the intended value and benefits of UC platforms by enabling disparate communications environments, commonplace in most enterprises today, to work seamlessly together. Likewise, our solutions secure the evolution to cloud-based delivery of UC solutions - both for service providers transforming to a cloud-based network and for enterprises using cloud-based UC.

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

We have traditionally sold our products through a global direct sales force, with additional sales support from regional channel partners throughout the world. Our channel partner program, Sonus Partner Assure, expands our coverage of the service provider and enterprise markets.

Business Acquisition

On September 26, 2016 (the "Taqua Acquisition Date"), we acquired Taqua, LLC ("Taqua"), a leading supplier of IP communications systems, applications and services to mobile and fixed operators. Taqua enables the transformation of software-based service provider networks to deliver next-generation voice, video and messaging services, including VoIP, VoWiFi and Voice over Long-Term Evolution ("VoLTE"). The acquisition of Taqua has, among other things, accelerated our mobile strategy by adding a Virtualized Mobile Core ("VMC") Platform and an IP Multimedia Subsystem ("IMS") Service Core and expanded our fixed portfolio by adding a Class 5 Softswitch (the T7000) for Network Transformation projects and a Multimedia Controller used in IP Peering applications (the T7100), both of which are complementary to our current product offerings. In consideration for the acquisition of Taqua, we paid $19.9 million in cash to the sellers on the Taqua Acquisition Date, net of cash acquired. We also entered into an Earn-Out Agreement, dated as of September 26, 2016, with Taqua

Holdings, LLC and Jeffrey L. Brawner, the seller representative in the transaction, under which there is the potential for additional cash payments to the sellers if certain annual revenue thresholds are exceeded as measured annually through 2020. Based on historical and forecasted sales, no incremental contingent consideration was recorded as of either September 30, 2017 or December 31, 2016. The financial results of Taqua are included in our condensed consolidated financial statements starting on the Taqua Acquisition Date.

Pending Merger

On May 23, 2017, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) with (i)_Solstice Sapphire Investments, Inc. ("NewCo") and its wholly-owned subsidiaries and (ii) GENBAND Holdings Company ("GENBAND") and two related holding companies such that, following a series of merger transactions (collectively, the "Mergers"), both the Company and GENBAND will each become a wholly-owned subsidiary of NewCo. Our former stockholders will own approximately 50%, and former shareholders of GENBAND will own approximately 50%, of the shares of NewCo common stock issued and outstanding immediately following the consummation of the Mergers.

GENBAND is a Cayman Islands exempted company limited by shares that was formed on April 7, 2010. Through its wholly owned operating subsidiaries, GENBAND creates rapid communications and applications for service providers, enterprises, independent software vendors, system integrators and developers globally. A majority of GENBAND's shares are held by funds affiliated with One Equity Partners. GENBAND shares are not listed on an exchange or quoted on any automated services, and there is no established trading market for GENBAND shares.

We believe that Sonus' and GENBAND's complementary products, solutions and strategies position the combined company to deliver comprehensive solutions to service providers and enterprises migrating to a virtualized all-IP environment in an expanded customer and global footprint.

Pursuant to the Merger Agreement, NewCo will issue shares to the GENBAND equity holders, with the number of shares issued in the aggregate to the GENBAND equity holders equal to the number of shares of the Company’s common stock outstanding immediately prior to the closing date of the Mergers. In addition, NewCo will repay GENBAND’s long-term debt, including both principal and unpaid interest, to a related party totaling approximately $48 million and repay GENBAND’s management fees due to a representative of a majority shareholder totaling $10.3 million. NewCo will also pay an estimated $9.0 million of NewCo's transaction fees incurred in connection with the Mergers and issue a promissory note for $22.5 million to certain GENBAND equity holders.

NewCo will assume the liability under GENBAND's revolving credit facility with Silicon Valley Bank (the "GENBAND facility"), which had outstanding borrowings and letters of credit totaling $18.0 million and $2.9 million, respectively, at October 26, 2017. At October 26, 2017, the outstanding borrowings had an average interest rate of 4.67%.

Our Board of Directors unanimously approved the Merger Agreement and the transactions contemplated thereby. A special meeting of the Company's stockholders was held on Thursday, October 26, 2017, at which our stockholders voted to, among other things, approve the Merger Agreement. The Company expects that the Mergers will be consummated on Friday, October 27, 2017.

Corporate Strategy

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

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

- pursuing strategic transactions and alliances;
- successfully implementing our cost reduction initiatives; and
- delivering sustainable profitability by continuing to improve our overall performance.

Financial Overview

Restructuring and Cost Reduction Initiatives

We are, and have been, committed to streamlining our operations and reducing our operating costs.

To better align our cost structure to our then-current revenue expectations, in April 2015, we announced a cost reduction review and consequently, initiated a restructuring plan to reduce our workforce (the "2015 Restructuring Initiative"). At December 31, 2016, we had $168,000 accrued in connection with this initiative, which was paid in the first quarter of 2017.

<u>2016 Restructuring Initiative</u>

In July 2016, we announced a program to further accelerate our investment in new technologies as the communications industry migrates to a cloud-based architecture (the "2016 Restructuring Initiative"), and that we planned to utilize most of the savings from this initiative to shift headcount toward new strategic initiatives, such as new products and an expanded go-to-market footprint in selected geographies and discrete vertical markets. We recorded $2.0 million of restructuring expense in the aggregate in connection with this initiative, comprised of $1.9 million for severance and related costs and $0.1 million to abandon our facility in Rochester, New York (the "Rochester Facility"). The actions under the 2016 Restructuring Initiative have been implemented and accordingly, we do not expect to record additional expense in connection with this initiative. The amounts accrued for severance and related costs had been fully paid by the end of the third quarter of 2017. We expect that the remaining amount accrued for facilities will be paid by the end of October 2019, when the lease on the Rochester Facility expires.

In connection with the 2016 Restructuring Initiative, we recorded $0.5 million of restructuring expense in the nine months ended September 30, 2017. We did not record restructuring expense in the three months ended September 30, 2017. The expense recorded in the nine months ended September 30, 2017 is comprised of $0.4 million for severance and related costs and $0.1 million related to the Rochester Facility.

<u>Taqua Restructuring Initiative</u>

In connection with the acquisition of Taqua, our management approved a restructuring plan in the third quarter of 2016 to eliminate certain redundant positions within the combined companies. On October 24, 2016, the Audit Committee of our Board of Directors approved a broader Taqua restructuring plan related to headcount and redundant facilities (both restructuring plans, the "Taqua Restructuring Initiative"). We recorded $1.8 million of restructuring expense in the aggregate in connection with this initiative, comprised of $1.2 million for severance and related costs and $0.6 million related to the elimination of redundant facilities. The actions under the Taqua Restructuring Initiative have been implemented and accordingly, we do not expect to record additional expense in connection with this initiative. The amounts accrued for severance and related costs had been fully paid by the end of the third quarter of 2017. We expect that the remaining amount accrued for facilities will be paid by the end of 2018.

In connection with the Taqua Restructuring Initiative, we recorded $0.6 million of restructuring expense in the nine months ended September 30, 2017, comprised of $0.2 million for severance and related costs and $0.4 million related to redundant facilities. We did not record restructuring expense in the three months ended September 30, 2017.

Financial Results

Our revenue was $74.6 million in the three months ended September 30, 2017 and $65.0 million in the three months ended September 30, 2016. Our revenue was $183.7 million in the nine months ended September 30, 2017 and $185.0 million in the nine months ended September 30, 2016.

Our gross profit was $54.5 million in the three months ended September 30, 2017 and $43.6 million in the three months ended September 30, 2016. Our gross profit was $124.7 million in the nine months ended September 30, 2017 and $122.2 million in the nine months ended September 30, 2016. Our gross profit as a percentage of revenue ("total gross margin") was 73.1% in the three months ended September 30, 2017 and 67.0% in the three months ended September 30, 2016. Our total gross margin was 67.9% in the nine months ended September 30, 2017 and 66.1% in the nine months ended September 30, 2016.

Our operating expenses were $50.6 million in the three months ended September 30, 2017 and $47.9 million in the three months ended September 30, 2016. Our operating expenses were $144.3 million in the nine months ended September 30, 2017 and $133.1 million in the nine months ended September 30, 2016. Operating expenses for the three months ended September 30, 2017 included $1.5 million of acquisition-related expense and $0.2 million of merger integration expense, both in connection with the pending merger with GENBAND. Operating expenses for the nine months ended September 30, 2017 included $1.1 million of restructuring expense as described above, $6.3 million of acquisition-related expense and $0.2 million of merger integration expense. The acquisition-related expense for the nine months ended September 30, 2017 is comprised of $6.2 million in connection with the pending merger with GENBAND and $0.1 million in connection with our acquisition of Taqua. The merger integration expense relates to the pending merger with GENBAND. The merger integration expense in both the three and nine months ended September 30, 2017 is included as a component of General and Administrative expense. We recorded $1.6 million of restructuring expense in both the three and nine months ended September 30, 2016, comprised of $1.2 million related to our 2016 Restructuring Initiative and $0.4 million related our Taqua Restructuring Initiative. We recorded $1.0 million of acquisition-related expense in both the three and nine months ended September 30, 2016 for professional fees, primarily legal fees, in connection with the acquisition of Taqua.

We recorded stock-based compensation expense of $3.9 million in the three months ended September 30, 2017 and $6.4 million in the three months ended September 30, 2016. We recorded stock-based compensation expense of $11.4 million in the nine months ended September 30, 2017 and $15.5 million in the nine months ended September 30, 2016. These amounts are included as components of both Cost of revenue and Operating expenses in our condensed consolidated statements of operations. In connection with the pending merger with GENBAND, we accelerated the vesting of all outstanding stock options and certain outstanding RSAs, RSUs and PSUs. As a result, we expect to record incremental stock-based compensation expense in the fourth quarter of 2017 related to these accelerations. Upon consummation of the merger, the shares underlying the accelerated portion of the RSAs, RSUs and PSUs will be issued and the vesting schedules for the remaining unvested RSAs, RSUs and PSUs will be adjusted to reflect this acceleration. Option holders had an opportunity to exercise their stock options, including the accelerated options, from October 20, 2017 through October 24, 2017, after which date all remaining outstanding stock options, with certain exceptions, were canceled.

The Compensation Committee of our Board of Directors (the "Compensation Committee") elected to reallocate the payment schedule in connection with our company-wide cash bonus program. For the year ended December 31, 2016, payment of 30% of the target bonus was allocable to achievement for the first half of the year, with 70% of the target bonus allocable to achievement for the second half of the year. For the year ended December 31, 2017, the Compensation Committee changed this allocation to 20% of the target bonus for the first half of the year and 80% of the target bonus for the second half of the year. As a result, we recorded less bonus expense in the first half of 2017 compared to the first half of 2016, with higher expense anticipated to be recorded in the second half of 2017 compared to the second half of 2016.

We reported income from operations of $3.9 million for the three months ended September 30, 2017 and a loss from operations of $4.3 million for the three months ended September 30, 2016. We reported losses from operations of $19.6 million for the nine months ended September 30, 2017 and $10.9 million for the nine months ended September 30, 2016.

We reported net income of $3.5 million for the three months ended September 30, 2017 and a net loss of $3.7 million for the three months ended September 30, 2016. We reported net losses of $19.5 million for the nine months ended September 30, 2017 and $11.3 million for the nine months ended September 30, 2016.

See "Results of Operations" in this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") for a discussion of the 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 ("GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates and judgments on historical experience, knowledge of current conditions and beliefs of what could occur in the future given available information. We consider the following accounting policies to be both those most important to the portrayal of our financial condition and those that require the most subjective judgment. If actual results differ significantly from management's estimates and projections, there could be a material effect on our condensed consolidated financial statements. The significant accounting policies that we believe are the most critical include the following:

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

For a further discussion of our critical accounting policies and estimates, please refer to our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. There were no significant changes to our critical accounting policies from December 31, 2016 through September 30, 2017.

Results of Operations

Three and nine months ended September 30, 2017 and 2016

Any forward-looking statements regarding revenue, costs, gross margins and expenses in this "Results of Operations" discussion do not include the potential impact of the pending merger with GENBAND.

Revenue. Revenue for the three and nine months ended September 30, 2017 and 2016 was as follows (in thousands, except percentages):

	Three months ended		Increase from prior year	
	September 30, 2017	September 30, 2016	$	%
Product	$ 44,120	$ 38,601	$ 5,519	14.3%
Service	30,509	26,410	4,099	15.5%
Total revenue	$ 74,629	$ 65,011	$ 9,618	14.8%

	Nine months ended		Increase (decrease) from prior year	
	September 30, 2017	September 30, 2016	$	%
Product	$ 98,305	$ 108,719	$ (10,414)	(9.6)%
Service	85,425	76,300	9,125	12.0 %
Total revenue	$ 183,730	$ 185,019	$ (1,289)	(0.7)%

Product revenue is comprised of sales of our communication infrastructure products.

The increase in product revenue in the three months ended September 30, 2017 compared to the three months ended September 30, 2016 was primarily the result of higher sales of certain of our newer product offerings aggregating $11.4 million, including approximately $7 million of product revenue from a major customer, and $1.6 million related to products from our acquisition of Taqua. These increases were partially offset by $7.5 million of net decreases in sales of our older product offerings.

The decrease in product revenue in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 was primarily the result of lower sales of certain of our older products aggregating $22.6 million, partially offset by higher sales of certain of our newer product offerings aggregating $9.0 million and a $3.1 million increase related to products from our acquisition of Taqua.

Approximately 24% of our total product revenue in the three months ended September 30, 2017 was from indirect sales through our channel partner program, compared to approximately 32% in the three months ended September 30, 2016.

Approximately 29% of our total product revenue was from indirect sales through our channel partner program in the nine months ended September 30, 2017, compared to approximately 26% in the nine months ended September 30, 2016.

Our product revenue from sales to enterprise customers was approximately 22% of our total product revenue in the three months ended September 30, 2017, compared to approximately 21% in the three months ended September 30, 2016. Our product revenue from sales to enterprise customers was approximately 24% of our total product revenue in the nine months ended September 30, 2017, compared to approximately 20% in the nine months ended September 30, 2016. These sales were made both through our direct sales team and indirect sales channel partners.

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. These complex arrangements are generally completed through our direct sales force.

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 and nine months ended September 30, 2017 and 2016 was comprised of the following (in thousands, except percentages):

	Three months ended		Increase from prior year	
	September 30, 2017	September 30, 2016	$	%
Maintenance	$ 24,256	$ 22,263	$ 1,993	9.0%
Professional services	6,253	4,147	2,106	50.8%
	$ 30,509	$ 26,410	$ 4,099	15.5%

	Nine months ended		Increase from prior year	
	September 30, 2017	September 30, 2016	$	%
Maintenance	$ 69,198	$ 64,290	$ 4,908	7.6%
Professional services	16,227	12,010	4,217	35.1%
	$ 85,425	$ 76,300	$ 9,125	12.0%

Our maintenance revenue increased in both the three and nine months ended September 30, 2017 compared to the three and nine months ended September 30, 2016, respectively, primarily due to the inclusion of maintenance revenue from our Taqua acquisition. Maintenance revenue attributable to our Taqua acquisition accounted for increases in maintenance revenue of $1.7 million in the three months ended September 30, 2017 and $4.7 million in the nine months ended September 30, 2017 compared to the same prior year periods.

The increase in our professional services revenue in the three months ended September 30, 2017 compared to the three months ended September 30, 2016 was primarily due to the higher number of projects completed in the current year quarter compared to the same prior year quarter, including a large project with a major customer. The increase in our professional services revenue in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 was primarily due to higher-than-usual revenue resulting from the completion of several large projects in the first and third quarters of 2017, including the aforementioned major customer project, which more than offset the decline in professional services revenue in the second quarter of 2017 compared to the second quarter of 2016.

The timing of the completion of projects for revenue recognition, customer payments and maintenance contracts may cause our service revenue to fluctuate from one period to the next.

The following customers contributed 10% or more of our revenue in at least one of the three or nine month periods ended September 30, 2017 and September 30, 2016:

Customer	Three months ended September 30, 2017	September 30, 2016	Nine months ended September 30, 2017	September 30, 2016
Verizon Communications Inc.	16%	*	15%	*
AT&T Inc.	11%	12%	10%	13%

* Represents less than 10% of revenue

Our 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 September 30, 2017	September 30, 2016	Nine months ended September 30, 2017	September 30, 2016
United States	75%	70%	71%	69%
Europe, Middle East and Africa	8	14	11	13
Japan	10	7	11	10
Other Asia Pacific	4	5	4	5
Other	3	4	3	3
	100%	100%	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.

Our deferred product revenue was $11.2 million at September 30, 2017 and $6.9 million at December 31, 2016. Our deferred service revenue was $43.8 million at September 30, 2017 and $43.8 million at December 31, 2016. 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.

We expect that our product revenue in 2017 will decrease compared to 2016 levels, primarily due to continued consolidation among our customers and their suppliers. We will continue to focus on expanding our product offerings to address the emerging UC and IP-based markets in both the enterprise and service provider markets, which we believe are aligned with the technology strategies of our customers.

We expect that our service revenue in 2017 will increase from 2016 levels as a result of the continued growth of our installed customer base, coupled with the full year impact of maintenance revenue from our acquisition of Taqua.

Overall, we expect that total revenue in 2017 will be flat compared to 2016 total revenue.

Cost of Revenue/Gross Margin. Our cost of revenue consists primarily of amounts paid to third-party manufacturers for purchased materials and services, royalties, manufacturing and professional services personnel and related costs, and provision for inventory obsolescence. Our cost of revenue and gross margins for the three and nine months ended September 30, 2017 and 2016 were as follows (in thousands, except percentages):

	Three months ended September 30, 2017	September 30, 2016	Increase (decrease) from prior year $	%
Cost of revenue				
Product	$ 9,708	$ 12,285	$ (2,577)	(21.0)%
Service	10,374	9,140	1,234	13.5 %
Total cost of revenue	$ 20,082	$ 21,425	$ (1,343)	(6.3)%
Gross margin				
Product	78.0%	68.2%		
Service	66.0%	65.4%		
Total gross margin	73.1%	67.0%		

	Nine months ended		Increase (decrease) from prior year	
	September 30, 2017	September 30, 2016	$	%
Cost of revenue				
Product	$ 28,748	$ 35,230	$ (6,482)	(18.4)%
Service	30,285	27,572	2,713	9.8 %
Total cost of revenue	$ 59,033	$ 62,802	$ (3,769)	(6.0)%
Gross margin				
Product	70.8%	67.6%		
Service	64.5%	63.9%		
Total gross margin	67.9%	66.1%		

The increase in our product gross margin in the three months ended September 30, 2017 compared to the three months ended September 30, 2016 was primarily attributable to product type mix, including sales of our higher margin software products (including the aforementioned $7 million of product revenue from a major customer), which increased our product gross margin by approximately eight percentage points, combined with higher product revenue against certain fixed manufacturing costs, which increased our product gross margin by approximately two percentage points.

The increase in product gross margin in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 was primarily due to product type mix, including sales of our higher margin software products, which increased our product gross margin by approximately five percentage points, partially offset by lower product revenue against certain fixed manufacturing costs, which decreased our product gross margin by approximately two percentage points.

The increase in service gross margin in the three months ended September 30, 2017 compared to the three months ended September 30, 2016 was primarily due to higher service revenue, partially offset by higher service costs, which contributed a net increase of approximately one percentage point to our service gross margin. This net increase was partially offset by higher third party maintenance costs, which decreased our service gross margin by approximately one-half of one percentage point.

The increase in service gross margin in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 was primarily due to higher service revenue against slightly higher fixed costs, which increased our service gross margin by approximately one percentage point.

Although our fixed service costs increased in both the three and nine months ended September 30, 2017 compared to the three and nine months ended September 30, 2016, respectively, these increases were more than offset by higher service revenue, resulting in the improved service gross margin.

We believe that our total gross margin will continue to be comparable to historical levels on an annualized basis for the foreseeable future.

Research and Development Expenses. Research and development expenses consist primarily of salaries and related personnel expenses and prototype costs for the design, development, testing and enhancement of our products. Research and development expenses for the three and nine months ended September 30, 2017 and 2016 were as follows (in thousands, except percentages):

			Increase from prior year	
	September 30, 2017	September 30, 2016	$	%
Three months ended	$ 20,798	$ 18,230	$ 2,568	14.1%
Nine months ended	$ 61,071	$ 53,005	$ 8,066	15.2%

The increase in research and development expenses in the three months ended September 30, 2017 compared to the three months ended September 30, 2016 was attributable to $2.2 million of higher employee-related expenses, $0.2 million of higher product development (third-party development, prototype and equipment) costs and $0.2 million of net increases in other research and development expenses. The increase in employee-related expenses was attributable to $1.8 million of higher salary and related expenses and $0.8 million of higher expense related to our company-wide cash bonus program.

These increases were partially offset by $0.2 million of lower stock-based compensation expense and $0.2 million of lower travel, training and other employee expenses.

The increase in research and development expenses in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 was attributable to $6.0 million of higher employee-related expenses and $2.1 million of higher product development costs. The increase in employee-related expenses was attributable to $6.6 million of higher salary and related expenses, partially offset by $0.6 million of lower expense in connection with our company-wide cash bonus program.

The increases in employee salary and related expenses in both the three and nine months ended September 30, 2017 compared to the three and nine months ended September 30, 2016 were primarily attributable to our increased investment in our security strategy, coupled with the inclusion of the Taqua research and development costs in the current year periods.

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 the market. We believe that our research and development expenses in 2017 will increase from 2016 levels due to the full year impact in 2017 of Taqua research and development costs and our increased investment in our security strategy, partially offset by cost reductions resulting from our 2016 Restructuring Initiative and our Taqua Restructuring Initiative.

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 and nine months ended September 30, 2017 and 2016 were as follows (in thousands, except percentages):

	September 30, 2017	September 30, 2016	Decrease from prior year $	Decrease from prior year %
Three months ended	$ 17,454	$ 18,103	$ (649)	(3.6)%
Nine months ended	$ 47,850	$ 50,890	$ (3,040)	(6.0)%

The decrease in sales and marketing expenses in the three months ended September 30, 2017 compared to the three months ended September 30, 2016 was attributable to $1.1 million of lower employee-related expenses and $0.1 million of lower expense related to evaluation equipment at customer sites. These decreases were partially offset by $0.4 million of higher amortization expense related to acquired intangible assets and $0.2 million of higher marketing and trade show expense. The decrease in employee-related expense is comprised of $2.2 million of lower stock-based compensation expense and $0.1 million of lower travel, training and other employee expenses, partially offset by $1.1 million of higher salary and commissions and related expenses and $0.1 million of higher expense in connection with our company-wide cash bonus program.

The decrease in sales and marketing expenses in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 was attributable to $4.1 million of lower employee-related expenses and $0.6 million of net decreases in other sales and marketing expenses. These decreases were partially offset by $1.1 million of higher amortization expense related to acquired intangible assets and $0.6 million of higher marketing and trade show expenses. The decrease in employee-related expenses is comprised of $3.6 million of lower stock-based compensation expense, $0.8 million of lower expense in connection with our company-wide cash bonus program and $0.1 million of lower travel, training and other employee expenses, partially offset by $0.4 million of higher salary and commissions and related expenses. The decrease in stock-based compensation expense includes the reversal in the three months ended March 31, 2017 of $1.0 million of incremental stock-based compensation expense to correct an error in 2016 related to the acceleration of certain stock awards held by an executive who separated from the Company in 2016. Management had reviewed and considered the impact of the error and determined that it was not material to our consolidated financial results for the third and fourth quarters of 2016, as well as the 2016 fiscal year. Management has also determined that the correction of this error was not material to the results of operations for the 2017 completed reporting periods.

We believe that our sales and marketing expenses will decrease in 2017 from 2016 levels due to cost savings from our restructuring initiatives, partially offset by the inclusion of Taqua's expenses in 2017.

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, legal and other professional fees. General and administrative expenses for the three and nine months ended September 30, 2017 and 2016 were as follows (in thousands, except percentages):

	September 30, 2017	September 30, 2016	Increase from prior year	
			$	%
Three months ended	$ 10,833	$ 8,998	$ 1,835	20.4%
Nine months ended	$ 27,993	$ 26,656	$ 1,337	5.0%

The increase in general and administrative expenses in the three months ended September 30, 2017 compared to the three months ended September 30, 2016 was attributable to $1.6 million of expense accrued for potential fines in connection with the ongoing U.S. Securities and Exchange Commission ("SEC") investigation, $0.5 million of higher employee-related expenses, $0.2 million of merger integration expense in connection with the pending merger with GENBAND and $0.1 million of net increases in other general and administrative expenses. These increases were partially offset by $0.6 million of lower professional fees (i.e., legal, audit and outside services). The decrease in professional fees was primarily attributable to lower legal fees. The increase in employee-related expenses was attributable to $0.3 million of higher expense in connection with our company-wide cash bonus program, $0.1 million of higher salary and related expenses and $0.1 million of higher travel, training and other employee expenses.

The increase in general and administrative expenses in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 was attributable to $0.7 million of higher professional fees, $0.5 million of net increases in costs related to legal matters, $0.2 million of merger integration expense in connection with the pending merger with GENBAND and $0.1 million of net increases in other general and administrative expenses. These increases were partially offset by $0.2 million of lower employee-related expenses. The increase in professional fees was primarily attributable to litigation. The net increases in costs related to legal matters was comprised of the $1.6 million of expense related to the SEC investigation described above, partially offset by the absence in the nine months ended September 30, 2017 of $0.6 million of patent litigation settlement costs recorded in the nine months ended September 30, 2016, plus the reversal in the nine months ended September 30, 2017 of $0.5 million of previously recorded expense to reflect a change in the initial estimate of costs for certain legal matters. The decrease in employee-related expenses was attributable to $0.3 million of lower expense in connection with our company-wide cash bonus program and $0.2 million of lower stock-based compensation expense, partially offset by $0.3 million of higher salary and related expenses.

We believe that our general and administrative expenses will increase in 2017 compared to 2016, primarily due to higher legal and settlement costs.

Acquisition-Related Expenses. Acquisition-related expenses include those expenses related to business acquisitions that would not otherwise have been incurred by us. These expenses include professional, services and other costs, such as legal, audit, consulting, paying agent and other related expenses. We recorded $1.5 million of acquisition-related expenses in the three months ended September 30, 2017 related to our pending merger with GENBAND, primarily comprised of legal, investment banking and accounting fees. The $6.3 million of acquisition-related expenses in the nine months ended September 30, 2017 was comprised of the costs described above as well as $56,000 for professional fees recorded in the first quarter of 2017 in connection with our acquisition of Taqua. We recorded acquisition-related expenses of $1.0 million in both the three and nine months ended September 30, 2016 for professional fees, primarily legal fees, in connection with our acquisition of Taqua.

Restructuring Expense. We have been committed to streamlining operations and reducing operating costs by closing and consolidating certain facilities and reducing our worldwide workforce. Please see the additional discussion of our restructuring initiatives in the "Restructuring and Cost Reduction Initiatives" section of the Overview of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

We recorded $1.1 million of restructuring expense in the nine months ended September 30, 2017, comprised of $0.5 million in connection with our 2016 Restructuring Initiative and $0.6 million in connection with our Taqua Restructuring Initiative. We did not record restructuring expense in the three months ended September 30, 2017.

We recorded restructuring expense aggregating $1.6 million in both the three and nine months ended September 30, 2016, comprised of $1.2 million related to our 2016 Restructuring Initiative and $0.4 million related to our Taqua Restructuring Initiative for severance and related costs.

Although we have eliminated positions as part of our restructuring initiatives, we continue to hire in certain other areas that we believe are important to our future growth. We currently expect that the remaining restructuring accruals, all of which are related to facilities, will be paid through the remaining terms of the respective leases, the last of which expires in the third quarter of 2019.

Interest Income (Expense), Net. Interest income and interest expense for the three and nine months ended September 30, 2017 and 2016 were as follows (in thousands, except percentages):

	Three months ended		Increase from prior year	
	September 30, 2017	September 30, 2016	$	%
Interest income	$ 269	$ 217	$ 52	24.0%
Interest expense	(9)	(8)	1	12.5%
Interest income, net	$ 260	$ 209	$ 51	24.4%

	Nine months ended		Increase from prior year	
	September 30, 2017	September 30, 2016	$	%
Interest income	$ 800	$ 617	$ 183	29.7%
Interest expense	(28)	(27)	1	3.7%
Interest income, net	$ 772	$ 590	$ 182	30.8%

Interest income consists of interest earned on our cash equivalents, marketable securities and investments. Interest expense relates to interest on capital lease obligations and expense related to the amortization of debt issuance costs in connection with our revolving credit facility.

Income Taxes. We recorded provisions for income taxes of $1.3 million in the nine months ended September 30, 2017 and $1.9 million in the nine months ended September 30, 2016. These amounts reflect our estimates of the effective rates expected to be applicable for the respective full fiscal years, adjusted for any discrete events, which are recorded in the period that they occur. These estimates are reevaluated each quarter based on our estimated tax rate for the full fiscal year. The estimated amounts recorded do not include any benefit for our domestic losses, as we have concluded that a valuation allowance on any domestic benefit is required. Included in our provision for the nine months ended September 30, 2016 was a discrete charge of $0.7 million related to an uncertain tax position of our subsidiary in France.

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):

	Nine months ended September 30, 2017	Nine months ended September 30, 2016	Change
Net loss	$ (19,538)	$ (11,301)	$ (8,237)
Adjustments to reconcile net loss to cash flows provided by operating activities	23,608	26,863	(3,255)
Changes in operating assets and liabilities	4,977	(5,514)	10,491
Net cash provided by operating activities	$ 9,047	$ 10,048	$ (1,001)
Net cash provided by (used in) investing activities	$ 10,544	$ (20,647)	$ 31,191
Net cash used in financing activities	$ (533)	$ (7,206)	$ 6,673

Our cash, cash equivalents, and short- and long-term investments totaled $131.6 million at September 30, 2017 and $126.1 million at December 31, 2016. We had cash and short-term investments held by our foreign subsidiaries aggregating approximately $5 million at both September 30, 2017 and December 31, 2016. We do not intend to repatriate these funds and, as such, they are not available to finance 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 would have a material impact on our liquidity.

We maintained a credit agreement by and among the Company, as Borrower, Bank of America, N.A. ("Bank of America"), as Administrative Agent, Swing Line Lender and L/C Issuer, and the other lenders from time to time party thereto entered into on June 27, 2014 (the "Credit Agreement"), which agreement was amended by a First Amendment to Credit Agreement on June 26, 2015 and further amended by a Second Amendment to Credit Agreement on June 13, 2016 (the "Amended Credit Agreement"). Our obligations under the Amended Credit Agreement were guaranteed by Sonus International, Inc., Sonus Federal, Inc., Network Equipment Technologies, Inc. and Taqua (collectively with the Company, the "Loan Parties") pursuant to a Master Continuing Guaranty and were secured by the assets of the Loan Parties pursuant to a Security and Pledge Agreement. The credit facility expired by its terms on June 30, 2017 and was not renewed. We did not have any amounts outstanding under the Amended Credit Agreement at December 31, 2016.

On July 29, 2013, we announced that our Board of Directors had authorized a stock buyback program to repurchase up to $100 million of our common stock from time to time on the open market or in privately negotiated transactions. The stock buyback program is being funded using our working capital. During the nine months ended September 30, 2017, we did not repurchase any shares under our stock buyback program. During the nine months ended September 30, 2016, we repurchased and retired 0.9 million shares under our stock buyback program for $7.1 million in the aggregate, including transaction fees. This amount is included in financing activities in our condensed consolidated statement of cash flows for the nine months ended September 30, 2016.

Our operating activities provided $9.0 million of cash in the nine months ended September 30, 2017 and $10.0 million of cash in the nine months ended September 30, 2016.

Cash provided by operating activities in the nine months ended September 30, 2017 was primarily the result of higher deferred revenue and accounts payable, and lower accounts receivable. These amounts were partially offset by lower accrued expenses and other long-term liabilities, and higher other operating assets. Our lower accounts receivable primarily reflects our focused collections efforts. The decrease in accrued expenses and other long-term liabilities was primarily related to employee compensation and related costs, including payments made in connection with our company-wide cash bonus program and sales commissions, as well as payments made in connection with our previously recorded restructuring initiatives. Our net loss, adjusted for non-cash operating activities, provided $4.1 million of cash.

Cash provided by operating activities in the nine months ended September 30, 2016 was primarily the result of lower accounts receivable and inventory. These amounts were partially offset by an increase in other operating assets and decreases in accrued expenses and other long-term liabilities, accounts payable and deferred revenue. Our lower accounts receivable primarily reflects our focused collections efforts. The decrease in accrued expenses and other long-term liabilities was primarily related to employee compensation and related costs, including payments made in connection with our company-wide cash bonus program and sales commissions, as well as payments made in connection with our previously recorded restructuring initiatives. Our net loss, adjusted for non-cash operating activities, provided $15.6 million of cash.

Our investing activities provided $10.5 million of cash in the nine months ended September 30, 2017, comprised of $13.2 million of net maturities of marketable securities and $0.6 million of cash received from the sale of IPv4 address blocks, partially offset by $3.3 million of investments in property and equipment.

Our investing activities used $20.6 million of cash in the nine months ended September 30, 2016, comprised of $20.7 million of cash paid as consideration for business acquisitions, including $19.9 million related to the acquisition of Taqua and $0.8 million paid as the final consideration installment for the acquisition of certain assets of Treq Labs, Inc. ("Treq") related to Treq's software-defined networking ("SDN") technology, SDN controller software and SDN management software (the "SDN Business"), coupled with $3.6 million of investments in property and equipment. These amounts were partially offset by $2.9 million of net sales and maturities of marketable securities.

Our financing activities used $0.5 million of cash in the nine months ended September 30, 2017, comprised of $1.9 million used to pay withholding obligations related to the net share settlement of restricted stock awards upon vesting and approximately $30,000 for payments on our capital leases for office equipment. These amounts were partially offset by $1.3 million of proceeds from the sale of our common stock in connection with our Amended and Restated Employee Stock Purchase Plan ("ESPP") and $0.1 million of proceeds from the exercise of stock options.

Our financing activities used $7.2 million of cash in the nine months ended September 30, 2016, comprised of $7.1 million, including transaction fees, for the repurchase of common stock, $1.5 million used to pay withholding obligations related to the net share settlement of restricted stock awards upon vesting and approximately $33,000 for payments on our capital leases for office equipment. These amounts were partially offset by $1.4 million of proceeds from the sale of our common stock in connection with our ESPP and $0.1 million of proceeds from the exercise of stock options.

Based on our current expectations, we believe our current cash, cash equivalents, marketable securities and long-term investments will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least twelve months, including any future stock repurchases under the aforementioned stock buyback program and any cash paid in connection with the pending merger with GENBAND. We expect that NewCo will have in place (through GENBAND, following the Mergers) a $50 million revolving credit facility, with potential further increases available for a total revolving line of credit of up to $125 million, at the time of the consummation of the pending merger with GENBAND (the "GENBAND facility"). At October 26, 2017, the GENBAND facility had $29.1 million available for future borrowings, including letters of credit. At October 26, 2017, outstanding borrowings and letters of credit totaled $18.0 million and $2.9 million, respectively. The outstanding borrowings of $18.0 million under the GENBAND facility had an average interest rate of 4.67% at October 26, 2017. GENBAND has advised us that it was in compliance with all covenants related to the GENBAND facility at September 30, 2017. It is difficult to predict future liquidity requirements with certainty. The rate at which we will consume cash will be dependent on the cash needs of future operations, including changes in working capital, which will, in turn, be directly affected by the successful implementation of our cost reduction initiatives, the levels of demand for our products, the timing and rate of expansion of our business, the timing of consummation of the GENBAND merger, the resources we devote to developing our products and any settlements of legal proceedings. We anticipate devoting substantial capital resources to continue our research and development efforts, to maintain our sales, support and marketing, to improve our controls environment, for other general corporate activities and to vigorously defend against existing and potential litigation. See Note 15 to our condensed consolidated financial statements for a description of our contingencies.

Recent Accounting Pronouncements

Any forward-looking statements regarding the potential impact of recent accounting pronouncements do not include the potential impact of the pending merger with GENBAND.

In May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-09, *Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting* ("ASU 2017-09"), which amends the scope of modification accounting for share-based payment arrangements. ASU 2017-09 provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under Accounting Standards Codification ("ASC") 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions and classification of the awards are the same immediately before and after the modification. ASU 2017-09 is effective for us beginning January 1, 2018 for both interim and annual reporting periods, with early adoption permitted. We do not expect the adoption of ASU 2017-09 will have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). which removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. As a result, under ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, ASU 2017-04 clarifies the requirements for excluding and allocating foreign currency translation adjustments to reporting units in connection with an entity's testing of reporting units for goodwill impairment; clarifies that an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable; and makes minor changes to other related guidance within the ASC. ASU 2017-04 is effective prospectively for us beginning January 15, 2020, with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We elected to early-adopt ASU 2017-04; such early adoption did not have a material impact on our consolidated financial results.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* ("ASU 2016-16"), which removes the prohibition in ASC 740, *Income Taxes*, against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. ASU 2016-16 is intended to reduce the complexity of GAAP and diversity in practice related to the tax consequences of certain types of intra-entity asset transfers, particularly those involving IP. ASU 2016-16 is effective for us beginning January 1, 2019 for both interim and annual reporting periods. We do not believe that the adoption of this standard will have a material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"), which amends the guidance in Accounting Standards Codification ("ASC") 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of ASU 2016-15 is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. ASU 2016-15 adds or clarifies guidance on eight cash flow issues, including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or certain other debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for us beginning January 1, 2018 for both interim and annual reporting periods, with early adoption permitted. Entities must apply the guidance retrospectively to all periods presented but may apply it prospectively from the earliest date practicable if retrospective application would be impracticable. We do not expect the adoption of ASU 2016-15 will have a material impact on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instrument*s ("ASU 2016-13"), which adds an impairment model that is based on expected losses rather than incurred losses. Under ASU 2016-13, an entity recognizes as an allowance its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. ASU 2016-13 is effective for us beginning January 1, 2020 for both interim and annual reporting periods, with early adoption permitted. We do not expect the adoption of ASU 2016-13 will have a material impact on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"), which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 became effective for us beginning January 1, 2017 for both interim and annual reporting periods. Under ASU 2016-09, we will now recognize unrealized excess tax benefits. Due to the full valuation allowance on our federal and state income taxes, the adoption of ASU 2016-09 did not have a material impact on our accounting for income taxes. Without the valuation allowance, we would have recognized an increased deferred tax asset approximating $5 million. We have elected to continue to apply forfeiture rates to the expense attribution related to stock options, restricted stock awards and restricted stock units, as we believe that such continued application results in more accurate expense attribution over the life of these equity grants.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842) Section A - Leases: Amendments to the FASB Accounting Standards Codification* ("ASU 2016-02"), its new standard on accounting for leases. ASU 2016-02 introduces a lessee model that brings most leases onto the balance sheet. The new standard also aligns many of the underlying principles of the new lessor model with those in ASC 606, the FASB's new revenue recognition standard (i.e., those related to evaluating when profit can be recognized). Furthermore, ASU 2016-02 addresses other concerns related to the current leases model. For example, ASU 2016-02 eliminates the current GAAP requirement for an entity to use bright-line tests in determining lease classification. ASU 2016-02 is effective for us for both interim and annual periods beginning January 1, 2019. Upon adoption of ASU 2016-02, we will recognize lease obligations for the right to use these assets in connection with our existing lease agreements. We are currently assessing the potential impact of the adoption of ASU 2016-02 on our consolidated financial statements and accordingly, such amounts to be recognized in the balance sheet have yet to be determined.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory* ("ASU 2015-11"), which simplifies the measurement of inventory by requiring entities to measure most inventory at the lower of cost and net realizable value, replacing the previous requirement to measure most inventory at the lower of cost or market. ASU 2015-11 does not apply to inventories that are measured by using either the last-in, first-out method or the retail inventory method. ASU 2015-11 became effective for us for both interim and annual reporting periods beginning January 1, 2017. The adoption of ASU 2015-11 did not have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”), its final standard on revenue from contracts with customers, along with additional ASUs which, among other things, clarified the implementation of the new revenue guidance and delayed the adoption by one year, to January 1, 2018 (collectively, the "New Revenue Standard"). The New Revenue Standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the revenue model to contracts within its scope, an entity identifies the contract(s) with a customer, identifies the performance obligations in the contract, determines the transaction price, allocates the transaction price to the performance obligations in the contract and recognizes revenue when (or as) the entity satisfies a performance obligation. The New Revenue Standard applies to all contracts with customers that are within the scope of other topics in the FASB ASC. Certain of the New Revenue Standard's provisions also apply to transfers of nonfinancial assets, including in-substance nonfinancial assets that are not an output of an entity’s ordinary activities (i.e., property, plant and equipment; real estate; or intangible assets). Existing accounting guidance applicable to these transfers has been amended or superseded. We continue to assess the potential impact of the adoption of the New Revenue Standard on our consolidated financial statements, and currently believe that such adoption will, in general, accelerate the recognition of revenue (i.e., more revenue will be recognized upon delivery than is currently recognized ratably or upon payment) compared to the current standards in effect, in particular, sales of software-only products and sales to customers currently accounted for on a cash basis. We currently expect to adopt the New Revenue Standard using the modified retrospective option, and are in the process of updating our revenue recognition software to comply with the New Revenue Standard. Under the modified retrospective method, we will apply the New Revenue Standard to all contracts not yet completed as of January 1, 2018, recognizing in beginning Accumulated deficit an adjustment for the cumulative effect of the change and providing additional disclosures comparing results to those as if we were still following the previous accounting standards. We currently expect that the adjustment to Accumulated deficit will be approximately $1 million.

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, 2016.

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 September 30, 2017.

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 September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

On July 19, 2017, Taqua Holdings, LLC ("Holdings") filed a lawsuit against us, GENBAND, Taqua and several of our merger-related subsidiaries and GENBAND's merger-related holding companies (collectively, the "Holdings Lawsuit Defendants") in Texas state court, District of Dallas County (Case No. DC-17-08630) based on the parties' Earn-Out Agreement (the "Holdings Complaint") which expressly provides that we are to have "the absolute right and sole and absolute discretion to operate and otherwise make decisions with respect to the conduct of the Business." The lawsuit alleges that: (i) we purportedly breached the Earn-Out Agreement by implementing a restructuring plan, the Taqua Restructuring Initiative, that was allegedly intended to undermine Taqua's business and our payment obligation; and (ii) we purportedly acquired Taqua for the purpose of eliminating Taqua as a competitor before tour pending merger with GENBAND (the "GENBAND Merger"), and that we never intended to promote Taqua products.

The Holdings Complaint purports to seek monetary damages for our alleged breach of the Earn-Out Agreement (which is described in Note 2 of this Quarterly Report on Form 10-Q and a copy of which is filed as Exhibit 10.31 to our Annual Report on Form 10-K for the year ended December 31, 2016) and an injunction of both the Taqua Restructuring Initiative and the GENBAND Merger.

On August 17, 2017, Holdings filed a Motion for Expedited Discovery. On August 18, 2017, the Company filed its Answer and Motion to Compel Arbitration and Stay Proceedings, requesting the Texas state court stay the proceedings in favor of arbitration, as provided by the terms of the Earn-Out Agreement. On August 22, 2017, Holdings filed its Opposition to the Company's Motion to Compel Arbitration and Stay Proceedings. Also on August 22, 2017, the Company filed its Response to Holdings' Motion for Expedited Discovery. On August 24, 2017, the Company filed a Reply in Support of its Motion to Compel Arbitration and Stay Proceedings. On August 25, 2017, a hearing was held on: (i) Holdings' Motion for Expedited Discovery and (ii) the Company's Motion to Compel Arbitration and Stay Proceedings. On August 29, 2017, the Texas state court denied Holdings' Motion for Expedited Discovery and granted the Company's Motion to Compel Arbitration and Stay Proceedings. Therefore, as of August 29, 2017, this lawsuit is stayed until further order of the court. Pursuant to the Membership Interest Purchase Agreement between the parties, dated September 26, 2016, together with Holdings, we have initiated non-binding mediation in an attempt to resolve this dispute. We do not expect the results of this suit to have a material adverse effect on its business or consolidated financial statements.

We are fully cooperating with an SEC inquiry regarding the development and issuance of our first quarter 2015 revenue and earnings guidance. Based on recent communications with the SEC's Division of Enforcement (the "Staff"), we currently expect the Staff to seek approval of the SEC commissioners to initiate proceedings alleging securities law violations, including violations of Section 10(b) and 17(a) of the Securities Exchange Act of 1934, as amended, with respect to the development and issuance of our first quarter 2015 revenue and earnings guidance which the Staff believes, based on its assessment of the matter, would warrant a $3.1 million fine against us. We believe the allegations are without merit and intend to vigorously contest the matter and the Staff's view. We recorded $1.6 million in the three months ended September 30, 2017 for potential fines in connection with this investigation.

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 and updated our discussion of the risk factors affecting our business since those presented in our Quarterly Report on Form 10-Q, Part II, Item 1A. for the quarter ended June 30, 2017. The following discussion includes two revised risk factors: "Completion of the pending GENBAND merger is subject to conditions and if these conditions are not satisfied or waived, the merger will not be completed" and "We may face risks related to litigation that could result in significant legal expenses and settlement or damage awards,"which reflect material developments subsequent to the discussion of risk factors included in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2017. Except for the risk factors noted above, there have been no material changes in our assessment of our risk factors from those set forth in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2017. For convenience, all of our risk factors are included below.

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

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

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

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

Equipment purchases by communications service providers and enterprises continue to be unpredictable. 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. Consequently, our quarterly operating results are difficult to predict even in the short 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 even if we meet 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.

Although we reported net income for the third quarter of 2017, we incurred net losses in the first and second quarters of 2017, as well as in fiscal years 2016 and 2015. 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.

Completion of the pending GENBAND merger is subject to conditions and if these conditions are not satisfied or waived, the merger will not be completed.

On May 23, 2017, we announced that we had entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Solstice Sapphire Investments, Inc., a wholly-owned subsidiary of the Company (“NewCo”), Solstice Sapphire, Inc., a wholly-owned subsidiary of NewCo (“Solstice Merger Sub”), Green Sapphire Investments LLC, a wholly-owned subsidiary of NewCo (“Cayman Merger Sub”), Green Sapphire LLC, a wholly-owned subsidiary of NewCo (“GB Merger Sub”), GENBAND Holdings Company (“GENBAND”), GENBAND Inc. (“GB”) and GENBAND II, Inc. (“GB II”), pursuant to which (i) Solstice Merger Sub will merge with and into the Company, with the Company surviving such merger as a wholly-owned subsidiary of NewCo, (ii) Cayman Merger Sub will merge with and into GENBAND, with GENBAND surviving such merger as a wholly-owned subsidiary of NewCo, (iii) GB will merge with and into GB Merger Sub, with GB Merger Sub surviving such merger as a wholly-owned subsidiary of NewCo and (iv) GB II will merge with and into GB Merger Sub, with GB Merger Sub surviving such merger as a wholly-owned subsidiary of NewCo (such mergers in (i) through (iv) above, collectively, the “Mergers”). Our obligations to complete the Mergers are subject to the satisfaction or waiver of certain conditions.

The failure to satisfy all of the required conditions could delay the completion of the Mergers by a significant period of time or prevent the Mergers from occurring. Any delay in completing the Mergers could cause us to not realize some or all of the benefits that we expect to achieve if the Mergers are successfully completed within the expected timeframe.

If we are unable to complete the pending Mergers, we may have incurred substantial expense and diverted significant management time and resources from our ongoing business. In addition, if the Merger Agreement is terminated under certain circumstances specified in the Merger Agreement, we may be required to pay GENBAND a termination fee of $14.5 million.

Although the Company's stockholders and the stockholders of GENBAND, GB and GB II have approved the respective mergers and the U.S. Federal Trade Commission granted early termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, there can be no assurance that the other conditions to closing the Mergers will be satisfied or waived or that the Mergers will be completed.

Combining Sonus and GENBAND may be more difficult, costly or time consuming than expected and the anticipated benefits and cost savings of the pending Mergers may not be realized.

We are operating and, until the completion of the Mergers, will continue to operate independently of GENBAND. The success of the Mergers, including anticipated benefits and cost savings, will depend, in part, on our ability to successfully combine and integrate the businesses. It is possible that the pendency of the Mergers and/or the integration process could result in the loss of key employees, higher than expected costs, diversion of management attention, the disruption of our ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the combined company’s ability to maintain relationships with customers, vendors and employees or to achieve the anticipated benefits and cost savings of the Mergers.

We will incur transaction fees, including legal, regulatory and other costs associated with closing the transaction, as well as expenses relating to formulating and implementing integration plans, including facilities and systems consolidation costs and employment-related costs. We continue to assess the magnitude of these costs, and additional unanticipated costs may be incurred in the Mergers and the integration of the two companies' businesses. While we expect that the elimination of duplicative costs as well as the realization of other efficiencies related to the integration of the businesses should allow us to offset integration-related costs over time, this net benefit may not be achieved in the near term or at all. As part of the integration process, we may also attempt to divest certain assets of the combined company, which may not be possible on favorable terms, or at all, or if successful, may change the profile of the combined company. If we experience difficulties with the integration process, the anticipated benefits of the Mergers may not be realized fully or at all, or may take longer to realize than anticipated. The actual cost savings of the Mergers could be less than expected.

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

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

Our future success will depend on our ability to attract additional customers beyond our current customer base. One customer, AT&T, contributed more than 10% of our revenue in each of the past three years, representing approximately 12% of our revenue in 2016, 13% of our revenue in 2015 and 19% of our revenue in 2014. Factors that may affect our ability to grow our customer base include but are not limited to the following:

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

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

- customer willingness to implement our products;
- pricing pressures due to the commoditization of our products;
- the timing of industry transitions to new network technologies;
- acquisitions of or by our customers;
- delays or difficulties that we may incur in completing the development and introduction of our planned products or product enhancements;
- failure of our products to perform as expected; and
- difficulties we may incur in meeting customers' delivery requirements or with software development, hardware design, manufacturing or marketing of our products and/or services.

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

We continue to enhance our sales strategy, which we expect will include more partner sales engagements to resell our products and services through authorized Sonus distributors, value added resellers, system integrators and other channel partners. Disruptions to, or our failure to effectively develop and manage, these partners and the processes and procedures that support them could adversely affect our ability to generate revenues from the sale of our products and services. If we

do not have adequate personnel, experience and resources to manage the relationships with these partners and to fulfill our responsibilities under such arrangements, such shortcomings could lead to the decrease of the sales of our products and services and our operating results could suffer.

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

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

In addition, we recognize some of our revenue based on a drop-ship 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 be impacted by financial failure of our partners, which could result in our inability to collect accounts receivable in full.

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

Success in our industry requires large investments in technology and creates exposure to rapid technological and market changes. We spend a significant amount of time, money and resources both developing new technology, products and solutions and acquiring new businesses or business assets, as applicable, such as NET in 2012, Performance Technologies, Incorporated ("PT") in 2014 and Taqua, LLC ("Taqua") in 2016. In 2015, we acquired from Treq Labs, Inc. ("Treq") certain assets related to its SDN Business. Our strategic plan includes a significant shift in our investments from mature technologies that previously generated significant revenue for us toward certain next-generation technologies, as well as working with channel partners to sell our products. In order for us to be successful, our technologies, products and solutions must be accepted by relevant standardization bodies and by the industry as a whole. Our choices of specific technologies to pursue, and those to de-emphasize, may prove to be inconsistent with our customers' investment spending. Our success also depends upon our ability to integrate new and acquired products and services, as well as our ability to enhance our existing products and services. Moreover, if we invest in the development of technologies, products and solutions that do not function as expected, are not adopted by the industry, are not ready in time, are not accepted by our customers as quickly as anticipated, mature more quickly than we 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 and services obsolete. If our products and services become technologically obsolete or if we are unable to develop successor products and services that are accepted by our customers, we may be unable to sell our products and services in the marketplace and face declines in sales. We may also experience difficulties with software development, hardware design, manufacturing or marketing that could delay or prevent our development, introduction or marketing of new products and enhancements.

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

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

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

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

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

We recorded net restructuring expense of $11.6 million in the aggregate from January 1, 2014 through September 30, 2017, comprised of $10.5 million for severance and related costs, $0.9 million for the consolidation of certain facilities and $0.2 million for the write-off of assets associated with the headcount reduction and facilities consolidations.

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

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

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

We may fail to realize the anticipated benefits from our recent acquisitions on a timely basis, or at all, for a variety of reasons, including but not limited to the following:

- problems or delays in assimilating or transitioning to us the acquired assets, operations, systems, processes, controls, technologies, products or personnel;
- loss of acquired customer accounts;
- unanticipated costs associated with the acquisitions;
- failure to identify in the due diligence process or assess the magnitude of certain liabilities we assumed in the acquisitions, which could result in unexpected litigation or regulatory exposure, unfavorable accounting treatment, unexpected increases in taxes due, significant issues with product quality or development or other adverse effects on our business or consolidated financial statements;
- multiple or overlapping product lines as a result of the 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 from the acquisitions;

- adverse effects on existing business relationships of Sonus, the SDN Business and/or Taqua with respective suppliers, licensors, contract manufacturers, customers, distributors, resellers and industry experts;
- significant impairment, exit and/or restructuring charges if the products or technologies acquired in the acquisitions do not meet our sales expectations or are unsuccessful;
- insufficient revenue to offset increased expenses associated with the acquisitions;
- risks associated with entering markets in which we have no or limited prior experience;
- potential loss of the employees we acquired in the acquisitions 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 our recent acquisitions 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.

The acquisition of Taqua may result in additional expenses that could adversely affect the financial results of the combined company.

The financial results of Sonus and Taqua as a combined company may be adversely affected by cash expenses and non-cash accounting charges incurred in connection with the combination. In addition to the amortization of intangible assets acquired in connection with this acquisition and other related expenses, we recorded $0.1 million and $1.2 million of acquisition-related cash expense in the first quarter of 2017 and in 2016, respectively, in connection with this acquisition and may incur additional acquisition-related cash expense in the future. The price of our common stock could decline to the extent the combined company's financial results are materially affected by these charges.

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

We may merge with or acquire additional businesses, products or technologies in the future. No assurance can be given that any future merger or acquisition will be successful or will not materially and adversely affect our business, operating results or financial condition. We continue to review opportunities to merge with or 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 enter into a merger or make acquisitions in the future, 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. Therefore, 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, restricted stock and other equity awards as a significant component of our employee compensation program in order to align our employees' interests with the interests of our stockholders, encourage employee retention and provide competitive compensation packages. In 2007, our stockholders approved our 2007 Stock Incentive Plan (the "2007 Plan"), which included a limited amount of shares to be granted under such 2007 Plan. Our stockholders approved amendments to the 2007 Plan in June 2010, June 2013, December 2014, June 2015 and June 2016. At our 2017 annual meeting of stockholders (the “2017 Annual Meeting”), our stockholders approved a further amendment and restatement of the 2007 Plan (as amended and restated, the "Stock Plan") to, among other things, increase the aggregate number of shares of our common stock authorized for issuance under the Stock Plan by 900,000 new shares from 16,476,713 shares to 17,376,713 shares.

Since it is not certain that our stockholders will approve future amendments that we determine are needed to the Stock Plan or adopt a new stock incentive plan, the limited number of shares available for use as equity incentives to employees may make it more difficult for us to attract, retain and motivate key personnel.

Worldwide efforts to contain capital spending and global economic conditions and uncertainties in the geopolitical environment 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 regarding global economic conditions and uncertainties in the geopolitical environment, we believe that customers 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 economic uncertainty and, consequently, our results of operations may be adversely affected. In addition, current uncertain worldwide economic and political environments make it increasingly difficult for us, our customers and our suppliers to accurately forecast future product demand, which could result in an inability to satisfy demand for our products and a loss of market share. Our revenues are likely to decline in such circumstances and our profit margins could erode, or we could incur significant losses.

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

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

Continuing turmoil in the geopolitical environment in many parts of the world, including terrorist activities and military actions, as well as political and economic issues in many regions, including the uncertainty arising from the UK's exit from the European Union, as well as changes implemented by the new U.S. presidential administration, continue to put pressure on global economic conditions. Our operating results and our ability to expand into other international markets may also be affected by changing economic conditions particularly germane to that sector or to particular customer markets within that sector.

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

Competition in the telecommunications market is intense. This market has historically been dominated by large incumbent telecommunications equipment companies, such as Ericsson LM Telephone Company and Huawei Technologies Co. Ltd., both of which are our direct competitors. We also face competition from other telecommunications and networking companies, including ADTRAN, Inc., ALOE Systems Inc., AudioCodes Ltd., Avaya Inc., Cisco Systems, Inc., Dialogic Inc., F5 Networks, Inc., GENBAND Inc., Metaswitch Networks Corporation, Mitel Networks Corporation, Nokia Corporation, Oracle Corporation, Sansay, Inc., Technicolor SA, Xura, Inc. and ZTE Corporation, all of which design competing products. These or other competitors may also merge, intensifying competition. Additional competitors with significant financial resources may enter our markets and further intensify competition.

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

To compete effectively, we must deliver innovative products that:

- provide extremely high reliability and quality;
- deploy and scale easily and efficiently;
- interoperate with existing network infrastructures and multivendor solutions;
- provide effective network management;
- are accompanied by comprehensive customer support and professional services;

- provide a cost-effective and space-efficient solution for enterprises and service providers;
- meet price competition from low cost equipment providers; and
- offer solutions that are timely for the market and support where the industry is heading.

If we are unable to compete successfully against our current and future competitors, we could experience price reductions, order cancellations and 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 and services could be seriously harmed and we may lose current and prospective customers.

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

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

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

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

The market for technology stocks has been, and will likely continue to be, volatile. The following factors, among others, 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;
- decreased spending by customers in the SBC and/or DSC security businesses;
- consolidation of our customers and among our competitors 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, mergers or capital commitments;
- if the pending Mergers are not consummated;
- activism by any single large stockholder or combination of stockholders;

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

Furthermore, brokerage firms often do not permit stocks trading below $5.00 per share to be sold short, but often permit short-selling of shares which are traded at higher prices. As a result, to the extent our per-share trading price is consistently above $5.00, investors may short our stock. This may increase the volatility of our stock price.

Our Amended Credit Agreement expired by its terms on June 30, 2017 and was not renewed. Without our Amended Credit Agreement, we do not have access to credit, which may have an adverse effect on our liquidity. Without sufficient liquidity, our business, operations and financial condition may be materially adversely affected.

The Amended Credit Agreement provided us with a revolving credit facility of up to $20 million. However, such agreement expired by its terms on June 30, 2017 and was not renewed. The lack of a credit facility could have a material adverse effect on our liquidity, business operations and financial condition.

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

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

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

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

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

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

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

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

From time to time, we are subject to claims and litigation regarding intellectual property rights or other claims, which could seriously harm our business and require us to incur significant costs. In the past, we have also been named as a defendant in other securities class action and derivative lawsuits. We are generally obliged, to the extent permitted by law, to indemnify our current and former directors and officers who are named as defendants in these lawsuits. Defending against litigation may require significant attention and resources of management. Regardless of the outcome, such litigation could result in significant legal expenses. We are fully cooperating with an SEC inquiry regarding the development and issuance of our first quarter 2015 revenue and earnings guidance. Based on recent communications with the SEC's Division of Enforcement (which we refer to as the "Staff"), we currently expect the Staff to seek approval of the SEC Commissioners to initiate proceedings alleging securities laws violations, including violations of Section 10(b) and 17(a) of the Exchange Act with respect to the development and issuance of our first quarter 2015 revenue and earnings guidance which the Staff believes, based on its assessment of the matter, would warrant a $3.1 million fine against us. We believe the allegations are without merit and intend to vigorously contest the matter and the Staff's view. We recorded $1.6 million in the three months ended September 30, 2017 for potential fines in connection with this investigation.

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. Further, defending ourselves from those types of claims could divert our management's attention from our operations. The cost of employment claims may also rise as a result of our increasing international expansion.

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

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

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

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

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

- authorizing the Board of Directors to issue shares of preferred stock;
- limiting the persons who may call special meetings of stockholders;
- prohibiting stockholder actions by written consent;
- permitting the Board of Directors to increase the size of the Board and to fill vacancies;
- providing indemnification to our directors and officers;
- controlling the procedures for conduct and scheduling of Board and stockholder meetings;
- requiring a super-majority vote of our stockholders to amend our amended and restated by-laws and certain provisions of our amended and restated certificate of incorporation;
- designating the Court of Chancery of the State of Delaware as the sole and exclusive forum for any stockholder to bring any derivative, fiduciary duty and other intra-corporate claims against us, and our directors, officers and other employees, unless we otherwise consent in writing to an alternate forum; and

- establishing advance notice requirements for nominations for election to the Board of Directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

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

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

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

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

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

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

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

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

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

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

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

While we currently work with four 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.

With the acquisition of Taqua in September 2016, we increased the number of contract manufacturers we work with from three to four. 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 and revenues. If any of our sole or limited source suppliers experiences capacity constraints, work stoppages or other reductions or disruptions in output, they may not be able to meet, or may choose not to meet, our delivery schedules. Moreover, we have agreed to compensate our contract manufacturers in the event of termination or cancellation of orders, discontinuance of product or excess material.

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

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

Our customer contracts also generally allow customers to reschedule delivery dates or cancel orders within certain time frames before shipment without penalty and outside those times frames with a penalty. Because of these and other factors, there are risks of excess 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 the 2016: our Executive Vice President, Services, Product Management and Corporate Development and our Chief Financial Officer. We are currently searching for a permanent replacement for the Chief Financial Officer role. We had five executive departures in 2015: our Vice President, Finance, Controller and Principal Accounting Officer; our Vice President and General Manager, Products; our Vice President and General Manager, Global Services; our Chief Information Officer; and our Vice President, Global Marketing. We had one executive departure in 2014: our Executive Vice President of Strategy and Go-to-Market. While we have since hired replacements and/or promoted certain individuals on an interim or permanent basis, there is always a risk of uncertainty and instability relating to our ability to find highly qualified successors for certain executive positions and to transition the duties and responsibilities of any departing key executive in an orderly manner.

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

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

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

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

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

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

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

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

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

A portion of our total revenue from product sales comes from contracts with U.S. federal government agencies. None of our current government contracts include long-term purchase commitments. 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.

A majority of our government sales involve products that have or will soon reach the end of their life cycles, and such government sales for these older products 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, if at all, or be sufficient to offset future declines in sales of these legacy products. Spending by government customers fluctuates based on budget allocations and the timely passage of the annual federal budget.

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

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

Consolidation in the telecommunications industry could harm our business.

The telecommunications industry, including many of our customers, has experienced consolidation, such as the pending acquisitions of Level 3 Communications, Inc. by CenturyLink, Inc. and of Hawaiian Telecom, Inc. by Cincinnati Bell Inc., the acquisition of XO Communications, LLC by Verizon Communications Inc. in February 2017, the acquisition of Polycom, Inc. by Siris Capital Group LLC, a private equity investment firm, in September 2016, the acquisition of Time Warner Cable Inc. and Bright House Networks by Charter Communications, Inc. in May 2016, the acquisition of Aruba Networks, Inc. by HP Inc. in May 2015, the acquisition of Mavenir Systems, Inc. by Mitel Networks Corporation in April 2015, the acquisition of Riverbed Technology, Inc. by Thoma Bravo, a private equity investment firm, in April 2015, the acquisition of Dialogic Inc. by Novacap TMT IV, L.P. in 2014, and the acquisitions of Acme Packet, Inc. and Tekelec by Oracle Corporation in 2013, and we expect this trend to continue. Consolidation among our customers may cause delays or reductions in capital expenditure plans and/or increased competitive pricing pressures as the number of available customers declines and the relative purchasing power of customers increases in relation to suppliers. Any of these factors could adversely affect our business.

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

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

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

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

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

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

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

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

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

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

We rely upon the security of our information systems and, in certain circumstances, those of our third-party providers, such as vendors, consultants and contract manufacturers, to protect our sensitive or 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 providers are vulnerable to threats such as computer hacking, cyber-terrorism or other unauthorized attempts by third parties to access, modify or delete our or our customers' sensitive or proprietary information. Such cyberattacks and other cyber incidents are occurring more frequently, are constantly evolving, are becoming more sophisticated and can take many forms. Information technology system failures, including a breach of our or our third-party providers' data security measures through a cyberattack, other cyber incident or otherwise, 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 a disclosure of customer, employee, or our information or otherwise disrupt our ability to function in the normal course of business by potentially causing, among other things, delays in the fulfillment or cancellation of customer orders or disruptions in the manufacture or shipment of products or delivery of services, any of which could have a material adverse effect on our operating results. These types of security breaches could also create exposure to lawsuits, regulatory investigations, increased legal liability and/or reputational damage. Such consequences could be exacerbated if we or our third-party providers are unable to adequately recover critical systems following a systems failure. Due to the constantly evolving nature of these security threats, the form and impact of any future incident cannot be predicted.

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

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

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

A change in accounting pronouncements or taxation rules or practices can have a significant effect on our reported results and may affect our reporting of transactions completed before the change is effective. New accounting pronouncements, taxation rules and varying interpretations of accounting pronouncements or taxation rules have occurred in the past and may occur in the future. The change to existing rules, future changes, if any, or the need for us to modify a current tax position may adversely affect our reported financial results or the way we conduct our business. For example, a new revenue recognition standard was issued in 2014 that will be effective for companies in 2018, and we expect that the adoption of this new standard could have a material impact on our consolidated financial statements.

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

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

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

Under generally accepted accounting principles, we review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Our intangible assets increased by approximately $12 million in 2016 as a result of our acquisition of Taqua, $11 million in 2015 as a result of our acquisition of the SDN Business and $17 million in 2014 as a result of our acquisition of PT. At September 30, 2017, we had $23.4 million of intangible assets, net, recorded in our consolidated balance sheet. Goodwill, which increased by approximately $9 million in 2016 as a result of our acquisition of Taqua, $1 million in 2015 as a result of our acquisition of the SDN Business and $7 million in 2014 as a result of our acquisition of PT (net of the reduction of goodwill related to the sale of PT's Multi-Protocol Server business), is tested for impairment at least annually. At September 30, 2017, we had $49.9 million of goodwill recorded in our consolidated balance sheet. 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, if our partners have organizational or supply issues, 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 an office in Bangalore, India. The employees at this facility consist principally of research and development personnel. There is no assurance that our reliance upon development resources in India will enable us to achieve meaningful cost reductions or greater resource efficiency. Further, our development efforts and other operations in India involve significant risks, including:

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

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

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

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

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

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

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

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

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

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

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

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

(c) Issuer Purchases of Equity Securities

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

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (3)
July 1, 2017 to July 31, 2017	79	$ 7.78	—	$ 5,429,481
August 1, 2017 to August 31, 2017	14,468	$ 6.88	—	$ 5,429,481
September 1, 2017 to September 30, 2017	56,234	$ 7.08	—	$ 5,429,481
Total	70,781	$ 7.04	—	$ 5,429,481

(1) Upon vesting of restricted stock awards, our employees are permitted to return to us a portion of the newly vested shares to satisfy the tax withholding obligations that arise in connection with such vesting. During the third quarter of 2017, 70,781 shares of restricted stock were returned to us by employees to satisfy tax withholding obligations arising in connection with vesting of restricted stock, which shares are included in this column.

(2) Consists of shares repurchased pursuant to a stock buyback program announced on July 29, 2013 (the "2013 Buyback Program"). Under the 2013 Buyback Program our Board of Directors authorized the repurchase of up to $100 million of our common stock from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares repurchased will be determined by our management based on its evaluation of market conditions and other factors. We may elect to implement a 10b5-1 repurchase program, which would permit shares to be repurchased when we might otherwise be precluded from doing so under insider trading laws. The 2013 Buyback Program may be suspended or discontinued at any time. The 2013 Buyback Program is being funded using our working capital. There were no shares repurchased under the 2013 Buyback Program during the third quarter of 2017.

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

Item 5. Other Information

On October 23, 2017, in connection with the pending merger with GENBAND, the Company committed to a restructuring initiative to reduce its post-transaction workforce by approximately 350 people, or approximately 15%, of combined Sonus and GENBAND employees worldwide. Cash expenditures of approximately $10 million to $12 million are anticipated to be incurred for severance and related costs. The actions are expected to be substantially completed by the end of 2018. Annual cash savings of approximately $45 million are anticipated as a result of this restructuring initiative.

Item 6. Exhibits

Exhibit No.	Description
31.1 *	Certificate of Sonus Networks, Inc. Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 *	Certificate of Sonus Networks, Inc. Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 #	Certificate of Sonus Networks, Inc. Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 #	Certificate of Sonus Networks, Inc. Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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* Filed herewith.

Furnished herewith.

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: October 26, 2017

SONUS NETWORKS, INC.

By: /s/ Susan M. Villare

Susan M. Villare
Chief Financial Officer (Interim) (Principal Financial Officer and Principal Accounting Officer)

EXHIBIT 31.1

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

I, Raymond P. Dolan, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: October 26, 2017

/s/ Raymond P. Dolan

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

EXHIBIT 31.2

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

I, Susan M. Villare, 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: October 26, 2017

/s/ Susan M. Villare

Susan M. Villare
Chief Financial Officer (Interim)
(Principal Financial Officer)

EXHIBIT 32.1

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

In connection with the Quarterly Report on Form 10-Q of Sonus Networks, Inc. (the "Company") for the period ended September 30, 2017 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: October 26, 2017

/s/ Raymond P. Dolan

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

EXHIBIT 32.2

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

In connection with the Quarterly Report on Form 10-Q of Sonus Networks, Inc. (the "Company") for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Susan M. Villare, Chief Financial Officer (Interim) 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: October 26, 2017

/s/ Susan M. Villare

Susan M. Villare
Chief Financial Officer (Interim)
(Principal Financial Officer)