

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

August 3, 2017

Date of Report (Date of earliest event reported)

SONUS NETWORKS, INC.

(Exact Name of Registrant as Specified in its Charter)

DELAWARE

(State or Other Jurisdiction
of Incorporation)

001-34115

(Commission File Number)

04-3387074

(IRS 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)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

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.

Item 2.02. Results of Operations and Financial Condition.

The information under this Item 2.02 of this Current Report on Form 8-K, including Exhibits 99.1 and 99.2 attached hereto, shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), otherwise subject to the liabilities of that Section or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

On August 3, 2017, Sonus Networks, Inc. (the "Company") issued a press release reporting its financial results for the quarter ended June 30, 2017, and posted supplementary financial and operational data on its website, www.sonus.net, in connection with the announcement of such financial results. Copies of the press release and the supplementary financial and operational data are furnished as Exhibits 99.1 and 99.2, respectively, to this Current Report on Form 8-K.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

The following exhibits relating to Item 2.02 shall be deemed furnished, and not filed:

- 99.1 Press release of Sonus Networks, Inc. dated August 3, 2017, reporting its financial results for the quarter ended June 30, 2017, furnished hereto.
- 99.2 Supplementary Financial and Operational Data issued by Sonus Networks, Inc. on August 3, 2017, furnished hereto.

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SIGNATURE

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 hereunto duly authorized.

Date: August 3, 2017

SONUS NETWORKS, INC.

By: /s/ Jeffrey M. Snider
Jeffrey M. Snider
Senior Vice President, Chief Administrative Officer,
General Counsel and Secretary

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Exhibit Index

- 99.1 Press release of Sonus Networks, Inc. dated August 3, 2017, reporting its financial results for the quarter ended June 30, 2017, furnished hereto.
- 99.2 Supplementary Financial and Operational Data issued by Sonus Networks, Inc. on August 3, 2017, furnished hereto.

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Sonus Networks Reports 2017 Second Quarter Results



August 3, 2017

WESTFORD, Mass. — Sonus Networks, Inc. (Nasdaq: SONS), a global leader in secure and intelligent cloud communications, today announced results for the second quarter ended June 30, 2017.

“We posted a solid second quarter of operating results and finished the first half of 2017 with momentum in several critical areas. We saw greater contribution from software-based revenue in the second quarter, which led to higher gross margins and stronger financial performance than we expected,” said Raymond Dolan, Sonus president and chief executive officer. “We had solid bookings and good linearity in the second quarter, and we are off to a strong start in the third quarter. The large project to cutover a Tier 1 VoLTE network in North America is now carrying live traffic, and we expect it will convert to revenue in the third quarter. This is another pure software deployment and should contribute to even stronger margins in the second half of the year.”

Financial Highlights

The following table summarizes the consolidated second quarter financial results (in millions, except per share amounts):

	Quarter Ended	
	June 30, 2017	June 30, 2016
Product revenue	\$ 28.8	\$ 35.4
Service revenue	\$ 26.9	\$ 25.5
Total revenue	\$ 55.7	\$ 60.9
GAAP gross margin	65.3%	66.1%
Non-GAAP gross margin(1)	68.8%	69.2%
GAAP loss from operations as a % of revenue	(22.8)%	(4.4)%
Non-GAAP (loss) income from operations as a % of revenue(1)	(1.8)%	7.1%
GAAP loss per share	\$ (0.25)	\$ (0.06)
Non-GAAP (loss) per share or diluted income per share(1)	\$ (0.02)	\$ 0.08

Cash and investments were \$125.9 million at the end of the second quarter of 2017, compared to \$128.8 million at the end of the first quarter of 2017.

(1) Please see the reconciliation of non-GAAP and GAAP financial measures in the press release appendix.

Technology Highlights

- Continued to build on our strategy of combining the capabilities of Sonus Session Border Controllers (SBCs) and industry-leading next-generation firewalls (NGFWs) to provide a unified security perimeter for enterprises.
- Partnered with Fortinet, Inc. (“Fortinet”) to validate and integrate end-to-end security solutions that protect against real-time data and communication threats, broadening Sonus’ security coalition ecosystem to now include Fortinet and Palo Alto Networks, Inc.
- Delivered a release for Sonus’ Policy and Management solutions, providing a consolidated framework for management, session control billing mediation and analytics functions across legacy and next-generation communications networks. Sonus offers a fully bundled solution to simplify and accelerate customer deployments.
- Introduced advanced Network-to-Network Interface (NNI) features for the APAC market and innovative migration capabilities for Microsoft Skype for Business customers.
- Continued expanding Sonus’ mobility and signaling solutions with an enhanced user interface for Sonus’ android-based VoWiFi (voice over wifi) client, in addition to new cloud deployment features on Sonus’ Diameter solution.
- Announced a new service, Incident Management-as-a-Service (IMaaS). Working with Sonus partner maintenance and support offerings, this managed service provides expert oversight of Sonus network elements and speeds up the resolution of network anomalies.
- The Sonus SBC SWE completed the testing and validation process of the Wind River® Titanium Cloud™ ecosystem program. Sonus and Wind River®, a subsidiary of Intel® Corporation, are collaborating to offer service providers a verified solution for SBC virtualized network function (VNF), delivering carrier-grade performance, availability and reliability.

Industry Recognition

- Sonus received Frost & Sullivan’s “2017 North American Enterprise Session Border Controller of the Year” award.

The Sonus SBC portfolio was named a “2016 Network Security Excellence Award” winner by INTERNET TELEPHONY.

Management Comments and Outlook

“We’ve been investing in virtualization for many years, and those investments are now starting to pay off in several strategic engagements. Our large competitive displacement of the incumbent in a North American Tier 1 has already led to a recent win in Mexico to replace an incumbent SBC supplier with our SBC 7000, which we expect to generate revenue in the fourth quarter. We are increasingly viewed as a trusted partner as global service providers continue their move to the cloud,” said Dolan. “On the security front, we announced Fortinet as a second technology partner as we build an ecosystem to define a common network perimeter for securing all flows for the enterprise. This will contribute to a managed service offering that can be provided by these service providers going forward, with the first one expected to launch commercially in the third quarter. This progress has been a significant driver in our selection by multiple customers to provide our software-based SBC as a core element of their cloud-based edge architectures. Additionally, in July we received JITC certification for our software-based SBC (SWe), making Sonus the only SW-based vendor-agnostic SBC on the approved list for government purchasing that provides carrier grade resiliency, scale and functionality. Taken together these are significant proof points that our R&D investments are driving opportunities to lead in the new software-based architectures in the years ahead.”

Susan Villare, Sonus interim chief financial officer, commented, “Our third quarter outlook is solid. We anticipate revenue will be between \$70 million and \$72 million, with GAAP diluted earnings per share between \$0.05 and \$0.08 and non-GAAP diluted earnings per share between \$0.17(1) and \$0.20(1). For the full year, our visibility is less certain as a result of the ongoing trend in customer consolidation. For example, we now anticipate that the consummation of the merger of two large Tier 1 service providers could result in a reduction in revenue on a year-over-year basis. Accordingly, our full year revenue outlook no longer supports year-over-year growth and we are now revising our outlook for full year revenue to be flat to a low single-digit percentage decline compared to 2016. We expect our GAAP loss per share will approximate \$0.46(2) and our non-GAAP diluted earnings per share will be \$0.26(1),(2).”

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(1) Please see the reconciliation of non-GAAP and GAAP financial measures in the press release appendix.

(2) GAAP loss per share assumes a basic share count of 49.5 million; non-GAAP diluted earnings per share assumes a share count of 50.0 million.

Q317 Guidance

The Company’s guidance is based on current indications for its business, which are subject to change. Gross margin, operating expenses and diluted earnings per share are presented on both a GAAP and non-GAAP basis. A reconciliation of the non-GAAP to GAAP guidance and a statement on the use of non-GAAP financial measures are included at the end of this press release. Please note that the guidance for Q317 and FY17 included in this press release does not include the potential impact of the proposed merger with GENBAND, with the exception of forecasted acquisition-related expenses.

	<u>Q317 Guidance</u>
Revenue	\$70 million to \$72 million
GAAP diluted earnings per share or (loss) per share	\$0.05 to \$0.08
Non-GAAP diluted earnings per share(1)	\$0.17 to \$0.20
Basic shares	49.8 million
Diluted shares	50.2 million

(1) Please see the reconciliation of non-GAAP and GAAP financial measures in the press release appendix.

Conference Call Details

Date: Thursday, August 3, 2017

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

Dial-in number: 800-707-9445

International Callers: +1-303-223-2698

The Company will offer a live, listen-only webcast of the conference call via Sonus’ Investor Relations page at <http://investors.sonusnet.com/events.cfm> in which supporting materials, including a presentation and supplemental financial and operational data, will be posted.

Replay Information

An archived version of the broadcast will be available on Sonus’ Investor Relations page shortly after the conclusion of the live event. A telephone playback will be available following the conference call until August 17, 2017 and can be accessed by calling 800-633-8284 or +1-402-977-9140 for international callers. The reservation number for the replay is 21854546.

Upcoming Third Quarter 2017 Investor Conferences and Meetings

- [August 8, 2017](#) — **The Oppenheimer 20th Annual Technology, Internet & Communications Conference**, Four Seasons Hotel, Boston
- [August 15, 2017](#) — **DA Davidson 9th Annual Technology Forum**, Roosevelt Hotel, New York City
- [August 29, 2017](#) — **Jefferies 2017 Semiconductor, Hardware and Communications Infrastructure Summit**, Ritz Carlton, Chicago
- [September 6, 2017](#) — **Drexel Telecom, Media & Technology Conference**, W Hotel, New York City

Sonus/GENBAND Merger Highlights

- On May 23, 2017, Sonus and GENBAND Holdings Company (“GENBAND”) announced a merger to create a global leader in next-generation communications networking, with increased scale and market reach across products, customers and geographies. GENBAND is a leading provider of carrier and enterprise network transformation and real-time communications solutions.
- Sonus and GENBAND shareholders will each own approximately 50% of the combined company.

- The two companies’ combined 2016 revenue was approximately \$680 million and EBITDA was approximately \$50 million.
- Enhanced scale and geographic reach and highly complementary product portfolios are expected to enable expanded market opportunities to accelerate growth.
- The Chief Executive Officer and Chief Financial Officer of the combined company will be Ray Dolan (from Sonus) and Daryl Raiford (from GENBAND), respectively.
- Sonus expects that the special meeting of stockholders to vote on the merger and the consummation of the merger, if approved, will occur in the second half of 2017.

Additional Resources

- Read more about the proposed Sonus Networks/GENBAND merger at <https://www.rtcleaders.com/>
- Access S-4 filing at <http://investors.sonusnet.com/sec.cfm>

About Sonus Networks

Sonus brings intelligence and security to real-time communications. By helping the world embrace the next generation of cloud-based SIP and 4G/LTE solutions, Sonus enables and secures latency-sensitive, mission critical traffic for VoIP, video, instant messaging and online collaboration. With Sonus, enterprises can give priority to real-time communications based on smart business rules while service providers can offer reliable, comprehensive and secure on-demand network services to their customers. With solutions deployed in more than 100 countries and nearly two decades of experience, Sonus offers a complete portfolio of hardware-based and virtualized session border controllers (SBCs), diameter signaling controllers (DSCs), policy/routing servers, network intelligence applications, media and signaling gateways and network analytics tools. For more information, visit www.sonus.net or call 1-855-GO-SONUS.

Important Information Regarding Forward-Looking Statements

This press release contains “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, which are subject to a number of risks and uncertainties. All statements other than statements of historical facts contained in this release, including statements made by our executive officers in the introductory paragraph and the section “Management Comments and Outlook,” statements in the sections “Q317 Guidance” and “Sonus/GENBAND Merger Highlights,” statements regarding our future results of operations and financial position, business strategy, strategic position, 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”, “expectations”, “intends”, “may”, “plans”, “seeks”, “projects” and other similar language, whether in the negative or affirmative, are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, the timing of customer purchasing decisions and our recognition of revenues; economic conditions; our ability to recruit and retain key personnel; difficulties supporting our strategic focus on channel sales; difficulties retaining and expanding our customer base; difficulties leveraging market opportunities; the impact of restructuring and cost-containment activities; the timing and impact of our proposed transaction with GENBAND; our ability to realize benefits from the acquisitions that we have completed; the effects of disruption from the acquisitions that we have completed, making it more difficult to maintain relationships with employees, customers, business partners or government entities; the success implementing the integration strategies with respect to acquisitions; litigation; actions taken by significant stockholders; difficulties providing solutions that meet the needs of customers; market acceptance of our products and services; rapid technological and market change; our ability to protect our intellectual property rights; our ability to

maintain partner, reseller, distribution and vendor support and supply relationships; higher risks in international operations and markets; the impact of increased competition; currency fluctuations; changes in the market price of our common stock; and/or failure or circumvention of our controls and procedures. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

This release also contains statements about our agreement to effect a strategic combination with 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 proposed merger, are more fully disclosed in the joint proxy statement/prospectus that is included in the initial registration statement on Form S-4 (File No. 333-219008) that was filed with the U.S. Securities and Exchange Commission (the “SEC”) in connection with the proposed merger.

We caution you against relying on any of these forward-looking statements. Important factors that could cause actual results to differ materially from those in these forward-looking statements are discussed in Part II, Item 1A. "Risk Factors", Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part I, Item 3 "Quantitative and Qualitative Disclosures About Market Risk" in the Company's most recent Quarterly Report on Form 10-Q. Any forward-looking statement made by us in this release speaks only as of the date of this release. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

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

IMPORTANT ADDITIONAL INFORMATION ABOUT THE TRANSACTION WILL BE FILED WITH THE SEC

In connection with the proposed transaction, NewCo has filed with the SEC a Registration Statement on Form S-4 that includes a preliminary joint proxy statement of Sonus and GENBAND and certain of its affiliates (the "GENBAND Parties") and a preliminary prospectus of NewCo, and Sonus and the parties will file with the SEC other relevant documents concerning the proposed transaction. Sonus will mail the definitive joint proxy statement/prospectus to Sonus stockholders and the GENBAND Party equity holders. SONUS STOCKHOLDERS AND GENBAND PARTY EQUITY HOLDERS ARE URGED TO READ THE REGISTRATION STATEMENT AND JOINT PROXY STATEMENT/PROSPECTUS REGARDING THE PROPOSED TRANSACTION AND ANY OTHER RELEVANT DOCUMENTS FILED WITH THE SEC, AS WELL AS ANY AMENDMENTS OR SUPPLEMENTS TO THOSE DOCUMENTS, BECAUSE THEY CONTAIN IMPORTANT INFORMATION. Investors and security holders may obtain a free copy of the joint proxy statement/prospectus and other filings containing information about Sonus at the SEC's website at www.sec.gov. The joint proxy statement/prospectus and the other filings may also be obtained free of charge from Sonus' Investor Relations website (<http://investors.sonusnet.com/>) or by requesting them from Sonus' corporate secretary at Sonus Networks, Inc., 4 Technology Park Drive, Westford, Massachusetts 01886, Attention: Corporate Secretary.

Sonus, NewCo, the GENBAND Parties and certain of their respective directors and executive officers, under the SEC's rules, may be deemed to be participants in the solicitation of proxies of Sonus stockholders in connection with the proposed transaction. Information about the directors and executive officers of (i) Sonus and their ownership of Sonus common stock and (ii) the GENBAND Parties and their ownership of equity in the applicable GENBAND Party is set forth in the joint proxy statement/prospectus.

Free copies of this document may be obtained as described in the preceding paragraphs.

NO OFFERS OR SOLICITATIONS

This communication shall not constitute an offer to sell or the solicitation of an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any jurisdiction in

which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offer of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended.

Discussion of Non-GAAP Financial Measures

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

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

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

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

In June 2016, we recorded \$0.6 million of patent litigation settlement costs. This amount is included as a component of General and administrative expense; however, we believe that such patent litigation settlement costs are not part of our core business or ongoing operations. Accordingly, we believe that

excluding this patent litigation settlement expense facilitates the comparison of our financial results to our historical operating results and to other companies in our industry.

We consider certain transition, integration and other acquisition-related costs to be unpredictable and dependent on a significant number of factors that may be outside of our control. We do not consider these acquisition-related costs to be related to the continuing operations of the acquired business or the Company. In addition, the size, complexity and/or volume of an acquisition, which often drives the

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magnitude of acquisition-related costs, may not be indicative of such future costs. We believe that excluding acquisition-related costs facilitates the comparison of our financial results to our historical operating results and to other companies in our industry.

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

In May 2017, we sold a block of IP addresses that we had acquired in connection with our acquisition of Network Equipment Technologies, Inc. and recognized a gain, net of commission and fees, of \$0.6 million. This amount is included as a component of Other income, net, in the three and six months ended June 30, 2017. We believe that such gains are not part of our core business or ongoing operations. Accordingly, we believe that excluding the other income arising from this sale facilitates the comparison of our financial results to our historical results and to other companies in our industry.

We anticipate that we will reverse \$0.7 million of deferred tax assets related to net operating loss carryforwards for our subsidiary in Canada based on positive earnings evidence in the subsidiary over a consecutive three-year period. This adjustment will result in an income tax credit and reduce our provision in the reversal period. We believe that such adjustments are not part of our core business or ongoing operations. Accordingly, we believe that excluding the income tax credit arising from the reversal of the deferred tax assets facilitates the comparison of our financial results to our historical results and to other companies in our industry.

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

For More Information

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

	Three months ended		
	June 30, 2017	March 31, 2017	June 30, 2016
Revenue:			
Product	\$ 28,790	\$ 25,395	\$ 35,349
Service	26,943	27,973	25,508
Total revenue	<u>55,733</u>	<u>53,368</u>	<u>60,857</u>
Cost of revenue:			
Product	9,287	9,753	11,409
Service	10,044	9,867	9,220
Total cost of revenue	<u>19,331</u>	<u>19,620</u>	<u>20,629</u>
Gross profit	<u>36,402</u>	<u>33,748</u>	<u>40,228</u>
Gross margin:			
Product	67.7%	61.6%	67.7%
Service	62.7%	64.7%	63.9%
Total gross margin	65.3%	63.2%	66.1%
Operating expenses:			
Research and development	20,064	20,209	17,457
Sales and marketing	15,720	14,676	16,192
General and administrative	8,141	9,019	9,287
Acquisition-related	4,679	56	—
Restructuring	501	570	—
Total operating expenses	<u>49,105</u>	<u>44,530</u>	<u>42,936</u>

Loss from operations	(12,703)	(10,782)	(2,708)
Interest income, net	254	258	217
Other income, net	575	1	10
Loss before income taxes	(11,874)	(10,523)	(2,481)
Income tax provision	(471)	(123)	(435)
Net loss	<u>\$ (12,345)</u>	<u>\$ (10,646)</u>	<u>\$ (2,916)</u>
Loss per share:			
Basic	\$ (0.25)	\$ (0.22)	\$ (0.06)
Diluted	\$ (0.25)	\$ (0.22)	\$ (0.06)
Shares used to compute loss per share:			
Basic	49,543	49,114	49,423
Diluted	49,543	49,114	49,423

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

	Six months ended	
	June 30, 2017	June 30, 2016
Revenue:		
Product	\$ 54,185	\$ 70,118
Service	54,916	49,890
Total revenue	<u>109,101</u>	<u>120,008</u>
Cost of revenue:		
Product	19,040	22,945
Service	19,911	18,432
Total cost of revenue	<u>38,951</u>	<u>41,377</u>
Gross profit	<u>70,150</u>	<u>78,631</u>
Gross margin:		
Product	64.9%	67.3%
Service	63.7%	63.1%
Total gross margin	64.3%	65.5%
Operating expenses:		
Research and development	40,273	34,775
Sales and marketing	30,396	32,787
General and administrative	17,160	17,658
Acquisition-related	4,735	—
Restructuring	1,071	—
Total operating expenses	<u>93,635</u>	<u>85,220</u>
Loss from operations	(23,485)	(6,589)
Interest income, net	512	381
Other income, net	576	113
Loss before income taxes	(22,397)	(6,095)
Income tax provision	(594)	(1,475)
Net loss	<u>\$ (22,991)</u>	<u>\$ (7,570)</u>
Loss per share:		
Basic	\$ (0.47)	\$ (0.15)
Diluted	\$ (0.47)	\$ (0.15)
Shares used to compute loss per share:		
Basic	49,330	49,453
Diluted	49,330	49,453

Condensed Consolidated Balance Sheets
(in thousands)
(unaudited)

	June 30, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	\$ 32,606	\$ 31,923
Marketable securities	54,793	61,836
Accounts receivable, net	42,664	53,862
Inventory	16,759	18,283
Other current assets	14,307	12,010
Total current assets	161,129	177,914
Property and equipment, net	10,656	11,741
Intangible assets, net	25,645	30,197
Goodwill	49,891	49,393
Investments	38,523	32,371
Deferred income taxes	1,586	1,542
Other assets	4,923	4,901
	<u>\$ 292,353</u>	<u>\$ 308,059</u>
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$ 5,849	\$ 6,525
Accrued expenses	18,613	25,886
Current portion of deferred revenue	51,277	43,504
Current portion of long-term liabilities	1,210	1,154
Total current liabilities	76,949	77,069
Deferred revenue	7,530	7,188
Deferred income taxes	3,462	3,047
Other long-term liabilities	1,419	1,633
Total liabilities	89,360	88,937
Commitments and contingencies		
Stockholders equity		
Common stock	50	49
Additional paid-in capital	1,257,521	1,250,744
Accumulated deficit	(1,060,165)	(1,037,174)
Accumulated other comprehensive income	5,587	5,503
Total stockholders' equity	202,993	219,122
	<u>\$ 292,353</u>	<u>\$ 308,059</u>

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

	Six months ended	
	June 30, 2017	June 30, 2016
Cash flows from operating activities:		
Net loss	\$ (22,991)	\$ (7,570)
Adjustments to reconcile net loss to cash flows provided by operating activities:		
Depreciation and amortization of property and equipment	3,595	3,970
Amortization of intangible assets	4,552	3,719
Stock-based compensation	7,500	9,056
Loss on disposal of property and equipment	6	26
Gain on sale of IP address blocks	(576)	—
Deferred income taxes	446	587
Changes in operating assets and liabilities:		
Accounts receivable	11,317	14,955
Inventory	829	844
Other operating assets	(1,061)	(2,566)
Accounts payable	(535)	(1,732)
Accrued expenses and other long-term liabilities	(8,089)	(11,182)
Deferred revenue	7,848	(888)
Net cash provided by operating activities	<u>2,841</u>	<u>9,219</u>
Cash flows from investing activities:		

Purchases of property and equipment	(2,593)	(2,636)
Business acquisitions, net of cash acquired	—	(750)
Purchases of marketable securities	(28,731)	(59,138)
Sale/maturities of marketable securities	29,067	44,364
Proceeds from the sale of IP address blocks	576	—
Net cash used in investing activities	<u>(1,681)</u>	<u>(18,160)</u>
Cash flows from financing activities:		
Proceeds from sale of common stock in connection with employee stock purchase plan	593	632
Proceeds from exercise of stock options	90	15
Payment of tax withholding obligations related to net share settlements of restricted stock awards	(1,406)	(832)
Repurchase of common stock	—	(4,980)
Principal payments of capital lease obligations	(20)	(24)
Net cash used in financing activities	<u>(743)</u>	<u>(5,189)</u>
Effect of exchange rate changes on cash and cash equivalents	266	280
Net increase (decrease) in cash and cash equivalents	683	(13,850)
Cash and cash equivalents, beginning of year	31,923	50,111
Cash and cash equivalents, end of year	<u>\$ 32,606</u>	<u>\$ 36,261</u>

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

The following tables provide the details of stock-based compensation, amortization of intangible assets, a patent litigation settlement and the gain on the sale of IP address blocks included in the Company's Statements of Operations and the line items in which these amounts are reported.

	Three months ended		
	June 30, 2017	March 31, 2017	June 30, 2016
Stock-based compensation			
Cost of revenue - product	\$ 87	\$ 99	\$ 93
Cost of revenue - service	261	317	322
Cost of revenue	<u>348</u>	<u>416</u>	<u>415</u>
Research and development expense	1,238	1,317	1,210
Sales and marketing expense	907	(88)	1,224
General and administrative expense	1,744	1,618	1,792
Operating expense	<u>3,889</u>	<u>2,847</u>	<u>4,226</u>
Total stock-based compensation	<u>\$ 4,237</u>	<u>\$ 3,263</u>	<u>\$ 4,641</u>
Amortization of intangible assets			
Cost of revenue - product	\$ 1,601	\$ 1,566	\$ 1,455
Sales and marketing expense	692	693	318
Operating expense	<u>692</u>	<u>693</u>	<u>318</u>
Total amortization of intangible assets	<u>\$ 2,293</u>	<u>\$ 2,259</u>	<u>\$ 1,773</u>
Patent litigation settlement			
General and administrative expense	\$ —	\$ —	\$ 605
Gain on sale of IP address blocks			
Other income, net	<u>\$ 576</u>	<u>\$ —</u>	<u>\$ —</u>

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

The following tables provide the details of stock-based compensation, amortization of intangible assets, a patent litigation settlement and the gain on the sale of IP address blocks included in the Company's Statements of Operations and the line items in which these amounts are reported.

	Six months ended	
	June 30, 2017	June 30, 2016
Stock-based compensation		

Cost of revenue - product	\$	186	\$	164
Cost of revenue - service		578		654
Cost of revenue		764		818
Research and development expense		2,555		2,389
Sales and marketing expense		819		2,244
General and administrative expense		3,362		3,605
Operating expense		6,736		8,238
Total stock-based compensation	\$	7,500	\$	9,056
Amortization of intangible assets				
Cost of revenue - product	\$	3,167	\$	3,082
Sales and marketing expense		1,385		637
Operating expense		1,385		637
Total amortization of intangible assets	\$	4,552	\$	3,719
Patent litigation settlement				
General and administrative expense	\$	—	\$	605
Gain on sale of IP address blocks				
Other income, net	\$	576	\$	—

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

	Three months ended		
	June 30, 2017	March 31, 2017	June 30, 2016
GAAP gross margin - product	67.7%	61.6%	67.7%
Stock-based compensation expense	0.3%	0.4%	0.3%
Amortization of intangible assets	5.6%	6.2%	4.1%
Non-GAAP gross margin - product	<u>73.6%</u>	<u>68.2%</u>	<u>72.1%</u>
GAAP gross margin - service	62.7%	64.7%	63.9%
Stock-based compensation expense	1.0%	1.2%	1.2%
Non-GAAP gross margin - service	<u>63.7%</u>	<u>65.9%</u>	<u>65.1%</u>
GAAP total gross margin	65.3%	63.2%	66.1%
Stock-based compensation expense	0.6%	0.8%	0.7%
Amortization of intangible assets	2.9%	3.0%	2.4%
Non-GAAP total gross margin	<u>68.8%</u>	<u>67.0%</u>	<u>69.2%</u>
GAAP total gross profit	\$ 36,402	\$ 33,748	\$ 40,228
Stock-based compensation expense	348	416	415
Amortization of intangible assets	1,601	1,566	1,455
Non-GAAP total gross profit	<u>\$ 38,351</u>	<u>\$ 35,730</u>	<u>\$ 42,098</u>
GAAP research and development expense	\$ 20,064	\$ 20,209	\$ 17,457
Stock-based compensation expense	(1,238)	(1,317)	(1,210)
Non-GAAP research and development expense	<u>\$ 18,826</u>	<u>\$ 18,892</u>	<u>\$ 16,247</u>
GAAP sales and marketing expense	\$ 15,720	\$ 14,676	\$ 16,192
Stock-based compensation expense	(907)	88	(1,224)
Amortization of intangible assets	(692)	(693)	(318)
Non-GAAP sales and marketing expense	<u>\$ 14,121</u>	<u>\$ 14,071</u>	<u>\$ 14,650</u>
GAAP general and administrative expense	\$ 8,141	\$ 9,019	\$ 9,287
Stock-based compensation expense	(1,744)	(1,618)	(1,792)
Patent litigation settlement	—	—	(605)
Non-GAAP general and administrative expense	<u>\$ 6,397</u>	<u>\$ 7,401</u>	<u>\$ 6,890</u>
GAAP operating expenses	\$ 49,105	\$ 44,530	\$ 42,936
Stock-based compensation expense	(3,889)	(2,847)	(4,226)
Amortization of intangible assets	(692)	(693)	(318)
Patent litigation settlement expense	—	—	(605)

Acquisition-related expense	(4,679)	(56)	—
Restructuring	(501)	(570)	—
Non-GAAP operating expenses	\$ 39,344	\$ 40,364	\$ 37,787
GAAP loss from operations	\$ (12,703)	\$ (10,782)	\$ (2,708)
Stock-based compensation expense	4,237	3,263	4,641
Amortization of intangible assets	2,293	2,259	1,773
Patent litigation settlement expense	—	—	605
Acquisition-related expense	4,679	56	—
Restructuring	501	570	—
Non-GAAP income (loss) from operations	\$ (993)	\$ (4,634)	\$ 4,311
GAAP loss from operations as a percentage of revenue	-22.8%	-20.2%	-4.4%
Stock-based compensation expense	7.6%	6.1%	7.6%
Amortization of intangible assets	4.1%	4.2%	2.9%
Patent litigation settlement expense	0.0%	0.0%	1.0%
Acquisition-related expense	8.4%	0.1%	0.0%
Restructuring	0.9%	1.1%	0.0%
Non-GAAP income (loss) from operations as a percentage of revenue	-1.8%	-8.7%	7.1%
GAAP other income, net	\$ 575	\$ 1	\$ 10
Gain on sale of IP address blocks	(576)	—	—
Non-GAAP other income (expense), net	\$ (1)	\$ 1	\$ 10
GAAP net loss	\$ (12,345)	\$ (10,646)	\$ (2,916)
Stock-based compensation expense	4,237	3,263	4,641
Amortization of intangible assets	2,293	2,259	1,773
Patent litigation settlement expense	—	—	605
Acquisition-related expense	4,679	56	—
Restructuring	501	570	—
Gain on sale of IP address blocks	(576)	—	—
Non-GAAP net income (loss)	\$ (1,211)	\$ (4,498)	\$ 4,103
Diluted earnings per share or (loss) per share			
GAAP loss per share	\$ (0.25)	\$ (0.22)	\$ (0.06)
Stock-based compensation expense	0.09	0.07	0.09
Amortization of intangible assets	0.05	0.05	0.04
Patent litigation settlement expense	—	—	0.01
Acquisition-related expense	0.09	*	—
Restructuring	0.01	0.01	—
Gain on sale of IP address blocks	(0.01)	—	—
Non-GAAP diluted earnings (loss) per share	\$ (0.02)	\$ (0.09)	\$ 0.08
Shares used to compute diluted earnings per share or (loss) per share			
GAAP shares used to compute loss per share	49,543	49,114	49,423
Non-GAAP shares used to compute diluted earnings per share or (loss) per share	49,543	49,114	49,970

* Less than \$0.1 impact on earnings (loss) per share

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

	Six months ended	
	June 30, 2017	June 30, 2016
GAAP gross margin - product	64.9%	67.3%
Stock-based compensation expense	0.3%	0.2%
Amortization of intangible assets	5.8%	4.4%
Non-GAAP gross margin - product	71.0%	71.9%
GAAP gross margin - service	63.7%	63.1%
Stock-based compensation expense	1.1%	1.3%
Non-GAAP gross margin - service	64.8%	64.4%
GAAP total gross margin	64.3%	65.5%
Stock-based compensation expense	0.7%	0.7%
Amortization of intangible assets	2.9%	2.6%
Non-GAAP total gross margin	67.9%	68.8%

GAAP total gross profit	\$ 70,150	\$ 78,631
Stock-based compensation expense	764	818
Amortization of intangible assets	3,167	3,082
Non-GAAP total gross profit	<u>\$ 74,081</u>	<u>\$ 82,531</u>
GAAP research and development expense	\$ 40,273	\$ 34,775
Stock-based compensation expense	(2,555)	(2,389)
Non-GAAP research and development expense	<u>\$ 37,718</u>	<u>\$ 32,386</u>
GAAP sales and marketing expense	\$ 30,396	\$ 32,787
Stock-based compensation expense	(819)	(2,244)
Amortization of intangible assets	(1,385)	(637)
Non-GAAP sales and marketing expense	<u>\$ 28,192</u>	<u>\$ 29,906</u>
GAAP general and administrative expense	\$ 17,160	\$ 17,658
Stock-based compensation expense	(3,362)	(3,605)
Patent litigation settlement expense	—	(605)
Non-GAAP general and administrative expense	<u>\$ 13,798</u>	<u>\$ 13,448</u>
GAAP operating expenses	\$ 93,635	\$ 85,220
Stock-based compensation expense	(6,736)	(8,238)
Amortization of intangible assets	(1,385)	(637)
Patent litigation settlement expense	—	(605)
Acquisition-related expense	(4,735)	—
Restructuring	(1,071)	—
Non-GAAP operating expenses	<u>\$ 79,708</u>	<u>\$ 75,740</u>
GAAP loss from operations	\$ (23,485)	\$ (6,589)
Stock-based compensation expense	7,500	9,056
Amortization of intangible assets	4,552	3,719
Patent litigation settlement expense	—	605
Acquisition-related expense	4,735	—
Restructuring	1,071	—
Non-GAAP income (loss) from operations	<u>\$ (5,627)</u>	<u>\$ 6,791</u>
GAAP loss from operations as a percentage of revenue	-21.5%	-5.5%
Stock-based compensation expense	6.8%	7.6%
Amortization of intangible assets	4.2%	3.1%
Patent litigation settlement expense	0.0%	0.5%
Acquisition-related expense	4.3%	0.0%
Restructuring	1.0%	0.0%
Non-GAAP income (loss) from operations as a percentage of revenue	<u>-5.2%</u>	<u>5.7%</u>
GAAP other income, net	\$ 576	\$ 113
Gain on sale of IP address blocks	(576)	—
Non-GAAP other income, net	<u>\$ —</u>	<u>\$ 113</u>
GAAP net loss	\$ (22,991)	\$ (7,570)
Stock-based compensation expense	7,500	9,056
Amortization of intangible assets	4,552	3,719
Patent litigation settlement expense	—	605
Acquisition-related expense	4,735	—
Restructuring	1,071	—
Gain on sale of IP address blocks	(576)	—
Non-GAAP net income (loss)	<u>\$ (5,709)</u>	<u>\$ 5,810</u>
Diluted earnings per share or (loss) per share		
GAAP loss per share	\$ (0.47)	\$ (0.15)
Stock-based compensation expense	0.15	0.19
Amortization of intangible assets	0.09	0.07
Patent litigation settlement expense	—	0.01
Acquisition-related expense	0.10	—
Restructuring	0.02	—
Gain on sale of IP address blocks	(0.01)	—
Non-GAAP diluted earnings (loss) per share	<u>\$ (0.12)</u>	<u>\$ 0.12</u>
Shares used to compute diluted earnings per share or (loss) per share		
GAAP shares used to compute loss per share	49,330	49,453
Non-GAAP shares used to compute diluted earnings per share or (loss) per share	49,330	49,780

* Less than \$0.1 impact on earnings (loss) per share

SONUS NETWORKS, INC.
Reconciliation of Non-GAAP and GAAP Financial Measures
Guidance - Q3 and FY 2017
(unaudited)

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

	Year ending December 31, 2017	
Earnings (loss) per share		
GAAP loss per share	\$	(0.46)
Stock-based compensation expense		0.30
Amortization of intangible assets		0.19
Acquisition-related expense		0.23
Restructuring		0.02
Sale of IP address blocks		(0.01)
Deferred tax asset adjustment		(0.01)
Non-GAAP outlook	\$	<u>0.26</u>

Sonus Networks, Inc.

(\$000's)	Q217	Q117	FY16	Q416	Q316	Q216	Q116	FY15	Q415	Q315	Q215	Q115
Revenue												
Product	28,790	25,395	146,381	37,662	38,601	35,349	34,769	141,913	47,776	42,230	27,042	24,865
Services	26,943	27,973	106,210	29,910	26,410	25,508	24,382	107,121	28,550	25,632	27,659	25,280
Total Revenue	55,733	53,368	252,591	67,572	65,011	60,857	59,151	249,034	76,326	67,862	54,701	50,145
% of Total Revenue												
Revenue												
Product	52%	48%	58%	56%	59%	58%	59%	57%	63%	62%	49%	50%
Services	48%	52%	42%	44%	41%	42%	41%	43%	37%	38%	51%	50%
Revenue by Geography												
Domestic	69%	67%	69%	68%	70%	70%	68%	71%	70%	77%	71%	62%
International	31%	33%	31%	32%	30%	30%	32%	29%	30%	23%	29%	38%
% of Total Revenue												
Revenue by Channel												
Direct	71%	66%	76%	75%	68%	75%	79%	76%	75%	78%	74%	76%
Indirect	29%	34%	24%	25%	32%	25%	21%	24%	25%	22%	26%	24%
Operating Statistics												
10% Customers												
Number of 10% customers	2	1	1	1	1	2	2	1	0	3	1	2
Name of 10% customers	Verizon AT&T	Verizon	AT&T	CenturyLink	AT&T	AT&T Verizon	Level 3 AT&T	AT&T	<None>	AT&T Inteliquent CenturyLink	AT&T	Verizon Softbank
5K/7K												
5K/7K Product Revenue	11,233	12,875	54,409	12,506	14,194	13,588	14,121	49,700	17,554	13,524	9,457	9,165
5K/7K as % of Product Revenue	39%	51%	37%	33%	37%	38%	41%	35%	37%	32%	35%	37%
Top 5 Customers as % of Revenue	41%	44%	37%	39%	41%	46%	46%	37%	33%	50%	40%	43%
Enterprise as % of Product Revenue	25%	28%	19%	18%	21%	20%	18%	19%	19%	20%	22%	15%
Number of Total Customers**	805	822	*	773	698	691	640	*	698	664	624	695
Number of New Customers**	169	160	583	156	145	151	131	623	155	150	150	168

* Not historically provided.

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