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

FORM 10-Q

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

For the quarterly period ended September 28, 2012

OR

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, including zip code)

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

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

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

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

As of October 25, 2012, there were 280,753,124 shares of the registrant's common stock, $0.001 par value, outstanding.

SONUS NETWORKS, INC.
FORM 10-Q
QUARTER ENDED SEPTEMBER 28, 2012

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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 report 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. Examples of forward-looking statements include, but are not limited to, statements regarding the following: plans, objectives, goals, strategies, future events or performance, trends, investments, customer growth, operational performance and costs, liquidity and financial positions, competition, estimated expenditures and investments, impacts of laws, rules and regulations, revenues and earnings, performance and other statements that are other than statements of historical facts. 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. They are neither statements of historical fact nor guarantees or assurances of future performance. 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 our recognition of revenues; our ability to recruit and retain key personnel; difficulties supporting our new strategic focus on channel sales; difficulties retaining and expanding our customer base; difficulties leveraging market opportunities; restructuring activities; our ability to realize benefits from acquisitions (including our acquisition of Network Equipment Technologies, Inc.); 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.

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," and Part II, Item 1A, "Risk Factors," herein. 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. We therefore caution you against relying on any of these forward-looking statements, which speak only as of the date made.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

SONUS NETWORKS, INC.

Condensed Consolidated Balance Sheets

(in thousands, except share data)

(unaudited)

	September 28, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 72,608	$ 105,451
Marketable securities	206,614	224,090
Accounts receivable, net of allowance for doubtful accounts of $0 at September 28, 2012 and December 31, 2011	46,638	53,126
Inventory	21,253	15,434
Deferred income taxes	751	486
Other current assets	21,605	12,246
Total current assets	369,469	410,833
Property and equipment, net	25,452	22,084
Intangible assets, net	17,106	1,200
Goodwill	34,563	5,062
Investments	24,058	55,427
Deferred income taxes	1,708	1,137
Other assets	14,464	8,972
	$ 486,820	$ 504,715
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 14,114	$ 12,754
Accrued expenses	24,313	21,620
Current portion of deferred revenue	32,722	38,565
Current portion of convertible subordinated note	8,120	—
Current portion of other long-term liabilities	1,469	1,275
Total current liabilities	80,738	74,214
Deferred revenue	9,568	11,601
Long-term portion of convertible subordinated note	2,380	—
Other long-term liabilities	3,471	3,599
Total liabilities	96,157	89,414
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, $0.01 par value; 5,000,000 shares authorized, none issued and outstanding	—	—
Common stock, $0.001 par value; 600,000,000 shares authorized; 280,524,050 shares issued and outstanding at September 28, 2012 and 279,318,396 shares issued and outstanding at December 31, 2011	281	279
Additional paid-in capital	1,319,113	1,309,919
Accumulated deficit	(935,986)	(902,204)
Accumulated other comprehensive income	7,255	7,307
Total stockholders' equity	390,663	415,301
	$ 486,820	$ 504,715

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 September 28, 2012	Three months ended September 30, 2011	Nine months ended September 28, 2012	Nine months ended September 30, 2011
Revenue:				
Product	$ 33,520	$ 41,892	$ 107,517	$ 107,291
Service	23,529	24,461	71,481	78,133
Total revenue	57,049	66,353	178,998	185,424
Cost of revenue:				
Product	11,768	11,504	31,988	44,283
Service	12,839	12,633	40,019	42,364
Total cost of revenue	24,607	24,137	72,007	86,647
Gross profit	32,442	42,216	106,991	98,777
Operating expenses:				
Research and development	15,612	16,231	51,094	47,026
Sales and marketing	17,613	14,651	56,339	42,246
General and administrative	7,939	10,133	25,302	26,526
Acquisition-related	4,090	—	5,057	—
Restructuring	1,992	—	1,992	—
Total operating expenses	47,246	41,015	139,784	115,798
Income (loss) from operations	(14,804)	1,201	(32,793)	(17,021)
Interest income, net	20	269	457	1,036
Other expense, net	(2)	—	(2)	—
Income (loss) before income taxes	(14,786)	1,470	(32,338)	(15,985)
Income tax (provision) benefit	(833)	439	(1,444)	(448)
Net income (loss)	$ (15,619)	$ 1,909	$ (33,782)	$ (16,433)
Earnings (loss) per share:				
Basic	$ (0.06)	$ 0.01	$ (0.12)	$ (0.06)
Diluted	$ (0.06)	$ 0.01	$ (0.12)	$ (0.06)
Shares used to compute earnings (loss) per share:				
Basic	280,145	278,721	279,854	278,286
Diluted	280,145	279,324	279,854	278,286

See notes to the unaudited condensed consolidated financial statements.

SONUS NETWORKS, INC.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

(unaudited)

	Three months ended		Nine months ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Net income (loss)	$ (15,619)	$ 1,909	$ (33,782)	$ (16,433)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	119	472	(76)	524
Unrealized gain (loss) on available-for-sale marketable securities, net of tax	127	(147)	24	12
	246	325	(52)	536
Comprehensive income (loss)	$ (15,373)	$ 2,234	$ (33,834)	$ (15,897)

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 28, 2012	Nine months ended September 30, 2011
Cash flows from operating activities:		
Net loss	$ (33,782)	$ (16,433)
Adjustments to reconcile net loss to cash flows used in operating activities:		
Depreciation and amortization of property and equipment	9,081	8,721
Amortization of intangible assets	904	300
Stock-based compensation	6,540	6,308
Loss on disposal of property and equipment	23	14
Changes in operating assets and liabilities:		
Accounts receivable	13,020	8,762
Inventory	(3,868)	19,113
Other operating assets	(4,998)	9,763
Accounts payable	(1,753)	(7,234)
Accrued expenses and other long-term liabilities	(3,625)	(12,046)
Deferred revenue	(9,624)	(33,477)
Net cash used in operating activities	(28,082)	(16,209)
Cash flows from investing activities:		
Purchases of property and equipment	(7,792)	(10,962)
Business acquisition, net of cash acquired	(35,508)	—
Purchases of marketable securities	(139,917)	(152,402)
Sale/maturities of marketable securities	200,380	192,769
Net cash provided by investing activities	17,163	29,405
Cash flows from financing activities:		
Proceeds from sale of common stock in connection with employee stock purchase plan	1,693	1,513
Proceeds from exercise of stock options	151	818
Payment of tax withholding obligations related to net share settlements of restricted stock awards	(169)	(1,245)
Principal payments of capital lease obligations	(87)	(66)
Settlement of redeemable convertible subordinated debentures	(23,704)	—
Net cash (used in) provided by financing activities	(22,116)	1,020
Effect of exchange rate changes on cash and cash equivalents	192	(445)
Net (decrease) increase in cash and cash equivalents	(32,843)	13,771
Cash and cash equivalents, beginning of year	105,451	62,501
Cash and cash equivalents, end of period	$ 72,608	$ 76,272
Supplemental disclosure of cash flow information:		
Interest paid	$ 638	$ 8
Income taxes paid	$ 1,958	$ 853
Income tax refunds received	$ 42	$ 564
Supplemental disclosure of non-cash investing activities:		
Capital expenditures incurred, but not yet paid	$ 861	$ 803
Property and equipment acquired under operating lease	$ 40	$ 59
Business acquisition purchase consideration—assumed equity awards	$ 892	$ —

See notes to the unaudited condensed consolidated financial statements.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(1) BASIS OF PRESENTATION

Business

Sonus Networks, Inc. ("Sonus" or the "Company") was incorporated in 1997 and is a leading provider of next-generation session initiation protocol ("SIP")-based solutions, including Voice over Internet Protocol ("VoIP"), video and Unified Communications ("UC") through secure, reliable and scalable Internet Protocol ("IP") networks. The Company's infrastructure solutions allow efficient and reliable delivery of voice and multimedia sessions IP networks while allowing customers to manage the flows of such sessions in their networks using business policies.

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

Basis of Presentation

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

Effective in fiscal 2012, the Company began to report its first, second and third quarters on a 4-4-5 basis, with the quarter ending on the Friday closest to the last day of each third month. In fiscal 2012, the Company's first quarter ended on March 30, 2012, the second quarter ended on June 29, 2012 and the third quarter ended on September 28, 2012. The Company's year-end will continue to be December 31.

Interim results are not necessarily indicative of results for a full year. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2011 ("Annual Report") filed on February 24, 2012 with the SEC.

On August 24, 2012, the Company completed the acquisition of Network Equipment Technologies, Inc. ("NET"). The financial results of NET have been included in the Company's condensed consolidated financial statements for the period subsequent to its acquisition.

The Company reported acquisition-related expenses of approximately $967,000 as a component of general and administrative expenses in the three and six months ended June 29, 2012. Effective with its reporting for the three and nine months ended September 28, 2012, the Company is reporting acquisition-related expenses as a separate component of operating expenses in the condensed

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(1) BASIS OF PRESENTATION (Continued)

consolidated statements of operations and has reclassified the prior period amount to conform to this presentation.

Significant Accounting Policies

The Company's significant accounting policies are disclosed in Note 2 to the Consolidated Financial Statements included in the Company's Annual Report filed on February 24, 2012. There were no significant changes to the significant accounting policies during the nine months ended September 28, 2012 with the exception of the policy below:

Business Combinations. The Company recognizes identifiable assets acquired and liabilities assumed at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed and represents the expected future economic benefits arising from other assets acquired in the business combination that are not individually identified and separately recognized. While the Company uses its best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, its estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill to the extent that it identifies adjustments to the preliminary purchase price allocation. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statements of operations.

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 financial statements include revenue recognition for multiple element arrangements, goodwill and intangible asset valuations, estimated lives of intangible assets, inventory valuations, assumptions used to determine the fair value of stock-based compensation, legal contingencies and recoverability of Sonus' net deferred tax assets and the related valuation allowances. Sonus regularly assesses these estimates and records changes in estimates in the period in which they become known. Sonus bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances. Actual results could differ from those estimates.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(1) BASIS OF PRESENTATION (Continued)

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, debt and other long-term liabilities, approximate their fair values.

Operating Segments

The Company operates in a single segment. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker in making decisions regarding resource allocation and assessing performance. To date, the chief operating decision maker has made such decisions and assessed performance at the company level, as one segment. The Company's chief operating decision maker is its President and Chief Executive Officer.

Recent Accounting Pronouncements

On June 16, 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* ("ASU 2011-05"), which revises the manner in which entities present comprehensive income in their financial statements. The new guidance requires companies to report components of comprehensive income in either: (1) a continuous statement of comprehensive income; or (2) two separate consecutive statements. ASU 2011-05 does not change the items that must be reported in other comprehensive income. On December 23, 2011, the FASB issued ASU No. 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* ("ASU 2011-12"), which defers certain provisions of ASU 2011-05, including the provision that requires entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. The unaffected provisions of ASU 2011-05 became effective for the Company in its reporting of the first quarter of fiscal 2012. The adoption of ASU 2011-05 did not have any impact on the Company's results of operations, financial position or cash flows.

(2) ACQUISITION OF NET

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

(2) ACQUISITION OF NET (Continued)

The transaction has been accounted for as a business combination and the financial results of NET have been included in the Company's condensed consolidated financial statements for the period subsequent to its acquisition. The Company's financial results for both the three and nine months ended September 28, 2012 include $7.2 million of revenue and $2.0 million of net loss attributable to NET for the period subsequent to its acquisition.

As of September 28, 2012, the valuation of acquired assets, identifiable intangible assets, uncertain tax liabilities and certain accrued liabilities is preliminary. The Company is in the process of investigating the facts and circumstances existing as of the NET Acquisition Date in order to finalize its valuation. Based on the preliminary purchase price allocation, the Company recorded $29.5 million of goodwill, which is primarily due to expected synergies between the combined companies and expanded market opportunities with broader SBC product solution offerings.

The acquisition was accounted for as a nontaxable business combination and the Company carried over the existing tax basis of the acquired assets and assumed liabilities. The Company concluded that there was insufficient positive evidence to overcome the more objective evidence of cumulative losses and accordingly, a valuation allowance against these assets has been recorded in purchase accounting. As further described in Note 14, following the acquisition, the Company intends to elect under Section 338(g) of the Internal Revenue Code to have the transaction treated as an asset acquisition (i.e., a taxable transaction) and therefore the goodwill will be deductible for tax purposes over 15 years.

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

Fair value of consideration transferred:	
Cash, net of cash acquired	$ 35,508
Fair value of equity awards assumed (see Note 11)	892
Fair value of total consideration	$ 36,400
Fair value of assets acquired and liabilities assumed:	
Marketable securities	$ 5,359
Deferred income taxes	804
Other current assets	12,095
Property and equipment	4,694
Noncurrent investments	10,167
Intangible assets	16,810
Goodwill	29,501
Other noncurrent assets	1,843
Current liabilities	(9,993)
Debt	(34,208)
Other long-term liabilities	(672)
	$ 36,400

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(2) ACQUISITION OF NET (Continued)

The valuation of the acquired intangible assets is inherently subjective and relies on significant unobservable inputs. The Company used an income approach to value the acquired customer relationships and developed technology intangible assets. The valuation for each of these intangible assets was based on estimated projections of expected cash flows to be generated by the assets, discounted to the present value at discount rates commensurate with perceived risk. The valuation assumptions take into consideration the Company's estimates of contract renewal, technology attrition and revenue growth projections. The Company is amortizing the identifiable intangible assets either on a straight line basis or in relation to the expected cash flows from the individual intangible assets over their respective useful lives (see Note 7).

The identifiable intangible assets as of the NET Acquisition Date are as follows (in thousands):

Developed technology	$ 9,080
Customer relationships	$ 6,140
Order backlog	$ 860
Internal use software	$ 730

Pro Forma Results

The following unaudited pro forma information presents the condensed combined results of operations of the Company and NET for the three and nine months ended September 28, 2012 and September 30, 2011 as if the acquisition of NET had been completed on January 1, 2011 with adjustments to give effect to pro forma events that are directly attributable to the acquisition. These pro forma adjustments include a reduction of historical NET revenue for the fair value adjustment related to acquired deferred revenue, an increase in amortization expense for the acquired identifiable intangible assets, a decrease in historical NET interest expense reflecting the extinguishment of NET's debt as a result of the acquisition, and the elimination of transaction costs included in the Company's and NET's historical results, directly attributable to the acquisition from the three and nine months ended September 28, 2012 and inclusion of such costs in the nine months ended September 30, 2011.

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

	Three months ended		Nine months ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Revenue	$ 63,358	$ 82,484	$ 207,847	$ 224,789
Net loss	$ (15,263)	$ (6,777)	$ (48,861)	$ (51,919)
Loss per share	$ (0.05)	$ (0.02)	$ (0.17)	$ (0.19)

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(2) ACQUISITION OF NET (Continued)

Acquisition-Related Costs

Acquisition-related costs include those costs related to the acquisition that would otherwise not have been incurred by the Company. These costs include professional and services fees, such as legal, audit, consulting, paying agent and other fees; and expenses related to cash payments to former NET executives under their NET change of control agreements.

The components of acquisition-related costs included in our results of operations for the three and nine months ended September 28, 2012 are as follows (in thousands):

	Three months ended September 28, 2012	Nine months Ended September 28, 2012
Professional and services fees	$ 2,048	$ 3,015
Change of control agreements	2,042	2,042
	$ 4,090	$ 5,057

The Company did not record any acquisition-related costs in either the three or nine months ended September 30, 2011.

(3) REVENUE RECOGNITION

The Company recognizes revenue from sales when persuasive evidence of an arrangement exists, delivery has occurred, the sale price is fixed or determinable, and collectability of the related receivable is probable. In instances where customer acceptance is required, revenue is deferred until the acceptance has been achieved. When fees for products or services are not fixed and determinable, the Company defers the recording of receivables, deferred revenue and revenue until such time as the fees become due or are collected.

Revenue from maintenance and support services is recognized ratably over the service period. Maintenance revenue is deferred until the associated product is accepted by the customer and all other revenue recognition criteria have been met. Maintenance and support services include telephone support, return and repair support and unspecified rights to product upgrades and enhancements. Revenue from other professional services is typically recognized as the services are delivered if all other revenue recognition criteria have been met.

The Company's products typically have both software and non-software components that function together to deliver the products' essential functionality. In addition, hardware sold generally cannot be used apart from the software. Therefore, the Company considers its principal products to be both software and hardware-related. Many of the Company's sales involve multiple element arrangements that include product, maintenance and various professional services.

Beginning January 1, 2011, the Company adopted the provisions of ASU No. 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements* ("ASU 2009-13") and ASU No. 2009-14, *Software (Topic 985): Certain Revenue Arrangements That Include Software Elements* ("ASU 2009-14") for new and materially modified arrangements that contain tangible products

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(3) REVENUE RECOGNITION (Continued)

(hardware) with software elements, which comprise the majority of the Company's revenue transactions. For multiple element arrangements entered into subject to the guidance set forth in ASU 2009-13, arrangement consideration is allocated to each element based on the relative selling prices of all of the elements in the arrangement using the fair value hierarchy as required by ASU 2009-13. The Company limits the amount of revenue recognized for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligations, or subject to customer-specific return or refund privileges.

For transactions entered into prior to January 1, 2011 and prospectively for software-only sales, the Company recognizes revenue in accordance with ASC No. 985-605, *Software—Revenue Recognition* ("ASC 985-605"). Under this guidance, revenue for any undelivered elements that are considered not essential to the functionality of the product and for which vendor-specific objective evidence of selling price ("VSOE") has been established is deferred and recognized upon delivery utilizing the residual method. If the Company has undelivered product for which VSOE has not been established, it defers all revenue on the entire arrangement until VSOE is established or until such elements are delivered, provided that all other revenue recognition criteria are met. If the Company has undelivered services for which VSOE has not been established, the entire arrangement is recognized as revenue over the longest remaining service period from the point in time that all services have commenced and all products have been delivered, provided that all other revenue recognition criteria are met.

The Company establishes VSOE based upon the price charged when the same element is sold separately or established by management having the relevant pricing authority. The Company has VSOE for its maintenance and support services and certain professional services. When VSOE exists it is used to determine the selling price of a deliverable. The Company has not been able to establish VSOE of any of its products and for certain of its services because the Company has not sold such products or services on a stand-alone basis, has not priced its products or services within a narrow range, or has limited sales history.

When VSOE is not established, the Company attempts to establish the selling price of each element based on third-party evidence of selling price ("TPE"). The Company's solution typically differs from that of its peers as there are no similar or interchangeable competitor products or services. The Company's various product and service offerings contain a significant level of customization and differentiation and therefore, comparable pricing of competitors' products and services with similar functionality cannot be obtained. Accordingly, the Company is not able to determine TPE for its products or services.

When the Company is unable to establish selling price using VSOE or TPE, the Company uses estimated selling price ("ESP") in its allocation of arrangement consideration for the relevant deliverables. The objective of ESP is to determine the price at which the Company would transact a sale if a product or service was sold on a stand-alone basis. The Company determines ESP for its products and certain services by considering multiple factors including, but not limited to, overall market conditions, including geographic or regional-specific market factors, profit objectives and historical pricing practices for such deliverables. The determination of ESP is a formal process within the Company that includes review and approval by the Company's management.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(3) REVENUE RECOGNITION (Continued)

Deferred revenue typically includes customer deposits and amounts associated with partial product shipments and maintenance or service contracts. Deferred revenue expected to be recognized as revenue more than one year subsequent to the balance sheet date is reported with long-term liabilities in the condensed consolidated balance sheets. The Company defers recognition of incremental direct costs, such as cost of goods, third-party installations and commissions, until recognition of the related revenue. Such costs are classified as current assets if the deferred revenue is initially classified as current and noncurrent assets if the related deferred revenue is initially classified as long-term.

The Company excludes any taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction (i.e., sales, use, value added) from its revenue and costs. Reimbursement received for out-of-pocket expenses and shipping costs is recorded as revenue.

The Company sells the majority of its products directly to its end customers. For products sold to resellers and distributors with whom the Company has sufficient history regarding the potential for product returns or refunds or any form of concession, the Company recognizes revenue on a sell-in basis. For all other resellers and distributors, the Company recognizes revenue on a sell-through basis.

(4) EARNINGS (LOSS) PER SHARE

The calculations of shares used to compute basic and diluted earnings (loss) per share for the three and nine months ended September 28, 2012 and September 30, 2011 were as follows (in thousands):

	Three months ended		Nine months ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Weighted average shares outstanding—basic	280,145	278,721	279,854	278,286
Potential dilutive common shares	—	603	—	—
Weighted average shares outstanding—diluted	280,145	279,324	279,854	278,286

Options to purchase the Company's common stock and unvested shares of restricted stock aggregating 27.2 million shares of common stock have not been included for the three and nine months ended September 28, 2012 because their effect would have been antidilutive. Options to purchase the Company's common stock aggregating approximately 17.8 million shares of common stock have not been included in the computation of diluted earnings per share for the three months ended September 30, 2011 because the options' exercise prices were greater than the average market price of the Company's common stock and their effect would have been antidilutive. Options to purchase the Company's common stock, unvested shares of restricted stock and unvested performance-based stock awards aggregating approximately 21.4 million shares of common stock have not been included for the nine months ended September 30, 2011 because their effect would have been antidilutive.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(5) CASH EQUIVALENTS, MARKETABLE SECURITIES AND LONG-TERM INVESTMENTS

Cash equivalents and marketable securities are invested in debt and equity instruments, primarily U.S. government-backed and corporate obligations, which management believes to be high quality (investment grade) credit instruments.

The amortized cost, gross unrealized gains and losses and fair value of the Company's marketable debt and equity securities and investments at September 28, 2012 and December 31, 2011 were comprised of the following (in thousands):

	September 28, 2012			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Cash equivalents	$ 45,009	$ —	$ —	$ 45,009
Marketable securities				
U.S. government agency notes	$ 66,711	$ 20	$ (1)	$ 66,730
Foreign government notes	3,753	2	—	3,755
Corporate debt securities	113,503	77	(9)	113,571
Commercial paper	5,484	10	—	5,494
Certificates of deposit	17,050	16	(2)	17,064
	$ 206,501	$ 125	$ (12)	$ 206,614
Investments				
U.S. government agency notes	$ 16,611	$ 25	$ —	$ 16,636
Corporate debt securities	6,391	18	(8)	6,401
Asset-backed securities	1,022	2	(3)	1,021
	$ 24,024	$ 45	$ (11)	$ 24,058

	December 31, 2011			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Cash equivalents	$ 63,105	$ —	$ —	$ 63,105
Marketable securities				
U.S. government agency notes	$ 106,631	$ 100	$ (4)	$ 106,727
Foreign government notes	1,770	1	—	1,771
Corporate debt securities	73,218	52	(20)	73,250
Commercial paper	22,787	1	(1)	22,787
Certificates of deposit	19,548	8	(1)	19,555
	$ 223,954	$ 162	$ (26)	$ 224,090
Investments				
U.S. government agency notes	$ 44,144	$ 4	$ (18)	$ 44,130
Corporate debt securities	11,296	9	(8)	11,297
	$ 55,440	$ 13	$ (26)	$ 55,427

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(5) CASH EQUIVALENTS, MARKETABLE SECURITIES AND LONG-TERM INVESTMENTS (Continued)

The contractual maturity dates for the Company's available-for-sale securities are one year or less from the respective balance sheet dates for the securities that are classified as Marketable securities and more than one year from the respective balance sheet dates for the securities that are classified as Investments in the condensed consolidated balance sheets.

Fair Value Hierarchy

The Company's financial assets or liabilities are measured using inputs from the three-tier fair value hierarchy, which 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 28, 2012 and December 31, 2011. These financial assets are comprised of the Company's available-for-sale debt

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(5) CASH EQUIVALENTS, MARKETABLE SECURITIES AND LONG-TERM INVESTMENTS (Continued)

and equity 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 28, 2012 using:		
	Total carrying value at September 28, 2012	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents	$ 45,009	$ 45,009	$ —	$ —
Marketable securities				
U.S. government agency notes	$ 66,730	$ —	$ 66,730	$ —
Foreign government notes	3,755	—	3,755	—
Corporate debt securities	113,571	—	113,571	—
Commercial paper	5,494	—	5,494	—
Certificates of deposit	17,064	—	17,064	—
	$ 206,614	$ —	$ 206,614	—
Investments				
U.S. government agency notes	$ 16,636	$ —	$ 16,636	$ —
Corporate debt securities	6,401	—	6,401	—
Asset-backed securities	1,021	—	1,021	—
	$ 24,058	$ —	$ 24,058	$ —

		Fair value measurements at December 31, 2011 using:		
	Total carrying value at December 31, 2011	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents	$ 63,105	$ 63,105	$ —	$ —
Marketable securities				
U.S. government agency notes	$ 106,727	$ —	$ 106,727	$ —
Foreign government notes	1,771	—	1,771	—
Corporate debt securities	73,250	—	73,250	—
Commercial paper	22,787	—	22,787	—
Certificates of deposit	19,555	—	19,555	—
	$ 224,090	$ —	$ 224,090	$ —
Investments				
U.S. government agency notes	$ 44,130	$ —	$ 44,130	$ —
Corporate debt securities	11,297	—	11,297	—
	$ 55,427	$ —	$ 55,427	$ —

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(5) CASH EQUIVALENTS, MARKETABLE SECURITIES AND LONG-TERM INVESTMENTS (Continued)

The Company's marketable securities and investments have been valued on the basis of valuations provided by third-party pricing services, as derived from such services' pricing models. Inputs to the models may include, but are not limited to, reported trades, executable bid and asked prices, broker/dealer quotations, prices or yields of securities with similar characteristics, benchmark curves or information pertaining to the issuer, as well as industry and economic events. The pricing 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.

(6) INVENTORY

Inventory at September 28, 2012 and December 31, 2011 consisted of the following (in thousands):

	September 28, 2012	December 31, 2011
On-hand final assemblies and finished goods inventories	$ 16,565	$ 11,556
Deferred cost of goods sold	8,008	6,689
	24,573	18,245
Less current portion	(21,253)	(15,434)
Noncurrent portion (included in Other assets)	$ 3,320	$ 2,811

(7) INTANGIBLE ASSETS AND GOODWILL

Intangible assets, net, at September 28, 2012 and December 31, 2011 consisted of the following (in thousands):

September 28, 2012	Weighted average amortization period (years)	Cost	Accumulated amortization	Net carrying value
Intellectual property	5.00	$ 2,999	$ 2,099	$ 900
Developed technology	5.90	9,080	183	8,897
Customer relationships	5.30	6,140	175	5,965
Order backlog	0.33	860	216	644
Internal use software	2.00	730	30	700
Total	4.78	$ 19,809	$ 2,703	$ 17,106

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(7) INTANGIBLE ASSETS AND GOODWILL (Continued)

December 31, 2011	Weighted average amortization period (years)	Cost	Accumulated amortization	Net carrying value
Intellectual property	5.00	$ 2,999	$ 1,799	$ 1,200

Amortization expense for intangible assets for the three and nine months ended September 28, 2012 and September 30, 2011 was as follows (in thousands):

	Three months ended		Nine months ended		
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011	Statement of operations classification
Intellectual property	$ 100	$ 100	$ 300	$ 300	Research and development
Developed technology	183	—	183	—	Cost of revenue—product
Customer relationships	175	—	175	—	Sales and marketing
Order backlog	216	—	216	—	Cost of revenue—product
Internal use software	30	—	30	—	Cost of revenue—product
	$ 704	$ 100	$ 904	$ 300	

Estimated future amortization expense for intangible assets recorded by the Company at September 28, 2012 is as follows (in thousands):

Remainder of 2012	$ 1,910
2013	4,868
2014	3,635
2015	2,205
2016	1,933
2017	1,900
Thereafter	655
	$ 17,106

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(7) INTANGIBLE ASSETS AND GOODWILL (Continued)

Goodwill is recorded when the consideration in a business combination exceeds the fair value of net tangible and identifiable intangible assets acquired. The changes in the carrying value of the Company's goodwill in the nine months ended September 28, 2012 are as follows (in thousands):

Balance at January 1, 2012:	
Goodwill	$ 8,168
Accumulated impairment losses	(3,106)
	5,062
Acquisition of NET	29,501
Balance at September 28, 2012	$ 34,563

There were no changes in the carrying value of the Company's goodwill in the nine months ended September 30, 2011.

(8) ACCRUED EXPENSES

Accrued expenses at September 28, 2012 and December 31, 2011 consisted of the following (in thousands):

	September 28, 2012	December 31, 2011
Employee compensation and related costs	$ 14,551	$ 13,782
Other	9,762	7,838
	$ 24,313	$ 21,620

(9) RESTRUCTURING ACCRUAL

On August 7, 2012, the Company announced that it had committed to a restructuring initiative to streamline operations and reduce operating costs by closing and consolidating certain facilities and reducing its worldwide workforce. In connection with this initiative, the Company reduced its workforce by approximately 90 people, or approximately 8% of employees worldwide. As part of this initiative, the Company recorded $2.0 million of restructuring expense in the three months ended September 28, 2012, comprised of $1.9 million for severance and related costs and $0.1 million to consolidate its offices in France. Restructuring expense is reported separately in the Company's condensed consolidated statements of operations. The Company expects to complete the payments related to severance in the fourth quarter of fiscal 2012 and the payments related to facilities in the second

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(9) RESTRUCTURING ACCRUAL (Continued)

quarter of fiscal 2013. The table below summarizes the restructuring accrual activity for the nine months ended September 28, 2012:

	Initiatives charged to expense	Cash payments	Foreign exchange	Balance at September 28, 2012
Severance	$ 1,923	$ (1,649)	$ —	$ 274
Facilities	69	—	1	70
	$ 1,992	$ (1,649)	$ 1	$ 344

(10) DEBT

In connection with the Company's acquisition of NET, the Company assumed NET's $3^3/4$% Convertible Senior Notes due December 15, 2014 and $7^1/4$% Redeemable Convertible Subordinated Debentures due May 15, 2014 outstanding at the NET Acquisition Date, subject to the transactions discussed below.

$3^3/4$% Convertible Senior Notes

In December 2007, NET issued $85.0 million of $3^3/4$% Convertible Senior Notes due December 15, 2014 in a private placement, of which $10.5 million in principal remained outstanding at both the NET Acquisition Date and September 28, 2012 (the "Senior Notes"). The Senior Notes bear interest at a rate of $3^3/4$% per annum and are set to contractually mature on December 15, 2014. The Senior Notes are unsecured senior obligations, ranking equal in right of payment to all existing and future senior indebtedness, and senior in right of payment to any existing and future subordinated indebtedness. The Senior Notes are not redeemable by the Company prior to the stated maturity date.

As provided by the Senior Notes' original terms, upon the occurrence of an acquisition, a holder may require NET to purchase for cash all or any part of its notes at a purchase price equal to 100% of the principal amount plus any accrued and unpaid interest (including additional interest, if any) up until, but not including, the fundamental change purchase date. Certain holders of the Senior Notes invoked such put right which resulted in NET being required to repurchase $8.1 million of aggregate principal amounts associated with the Senior Notes in October 2012. As a result of this put right being enacted upon consummation of the acquisition of NET by the Company, such Senior Notes have been classified as a current liability within the condensed consolidated balance sheet as of September 28, 2012. The remaining $2.4 million in aggregate principal amount is due in 2014 and has therefore been classified within long-term liabilities in the condensed consolidated balance sheet, as neither NET nor the holders of the Senior Notes can contractually repurchase or require repurchase prior to maturity.

$7^1/4$% Redeemable Convertible Subordinated Debentures

In May 1989, NET issued $75.0 million of $7^1/4$% Redeemable Convertible Subordinated Debentures due May 15, 2014, of which $23.7 million in aggregate principal amount remained outstanding as of the NET Acquisition Date (the "Debentures"). The Debentures bore interest at a rate of $7^1/4$% per annum and were contractually set to mature on May 15, 2014. Each Debenture is redeemable at any time at

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(10) DEBT (Continued)

the option of NET at a redemption price equal to 100% of the principal amount plus any accrued and unpaid interest to the redemption date. The Debenture holders were entitled to a sinking fund which began May 15, 2000, of 14 annual payments of 5% of the aggregate principal amount of Debentures issued ($3.8 million annually), which is reduced by any redemptions or conversions that have occurred to date. As a result of previous redemptions by NET prior to the consummation of the NET acquisition, the total remaining sinking fund requirement was $1.2 million as of the NET Acquisition Date.

On August 24, 2012, NET notified all remaining holders of the Debentures that NET had elected to redeem the entire outstanding aggregate principal amount effective September 26, 2012. On such date NET paid the aggregate principal amount of $23.7 million plus $0.6 million in accrued interest to the holders of the Debentures and accordingly, at September 28, 2012, no obligation remained in connection with the Debentures.

(11) STOCK-BASED COMPENSATION PLANS

The Company's 2007 Stock Incentive Plan, as amended (the "2007 Plan"), provides for the award of options to purchase the Company's common stock ("stock options"), stock appreciation rights, restricted common stock ("restricted stock"), performance-based share awards ("performance-based awards"), restricted stock units 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.

In connection with the acquisition of NET, the Company assumed NET's 2008 Equity Incentive Plan (the "2008 Plan"), which provides for the award of stock options, stock appreciation rights, restricted stock, performance-based awards and restricted stock units ("RSUs") to Sonus employees who were previously NET employees and Sonus employees hired after the NET Acquisition Date. Outstanding in-the-money stock options and unvested RSUs held by NET employees (the "NET stock options" and the "NET RSUs") and the number of shares available for grant under the 2008 Plan were converted to like Sonus equity awards (the "converted awards") using a conversion factor of 0.75, which was calculated based on the acquisition consideration of $1.35 per share of NET common stock divided by the average of the closing price of Sonus common stock for the ten consecutive trading days ending with the third trading day that preceded the closing date. This conversion factor was also used to convert the exercise price of the NET stock options to a Sonus stock option exercise price. The converted awards will vest under the same schedules as the respective NET stock options and NET RSUs.

The fair values of the NET stock options assumed were estimated using a Black-Scholes option pricing model. The Company recorded $0.9 million as additional purchase consideration for the fair value of the assumed equity awards. The fair value of the assumed awards attributable to future stock-based compensation expense totaled $0.4 million, which is being recorded over a weighted average period of approximately eight months.

On August 7, 2012, the Company and Raymond P. Dolan, the Company's President and Chief Executive Officer ("Mr. Dolan") executed a letter agreement (the "Amendment") amending the terms and conditions of Mr. Dolan's employment agreement of October 8, 2010 as amended on February 13,

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(11) STOCK-BASED COMPENSATION PLANS (Continued)

2011 (the "Agreement"). Under the terms of the Amendment, Mr. Dolan elected to accept shares of restricted stock (the "Salary Shares") in lieu of base salary through December 31, 2012. Mr. Dolan also elected to receive his fiscal year 2012 target bonus, if earned, in the form of restricted shares ("Bonus Shares").

The Company granted Mr. Dolan 108,398 Salary Shares, which have a total grant date fair value equal to the balance of Mr. Dolan's base salary for the year ending December 31, 2012, calculated by dividing Mr. Dolan's remaining base salary for the year by $1.78, the closing price of the Company's common stock on the date of grant. The Salary Shares will vest on December 31, 2012, contingent upon Mr. Dolan's continued employment with the Company or termination in accordance with the Agreement. The Company will record compensation expense related to these awards ratably over the remaining vesting period through December 31, 2012. The Salary Shares are included in the amount reported as "Granted" in the Restricted Stock Awards table below.

The Company granted Mr. Dolan 421,348 Bonus Shares, which equals Mr. Dolan's target bonus at the maximum level of achievement (150% of Mr. Dolan's annual base salary), divided by $1.78, the closing price of the Company's common stock on the date of grant. The Company is recording stock-based compensation expense for the Bonus Shares commensurate with the expected achievement level represented by the Company's accrual for its company-wide cash bonus program, as the performance metrics for each are consistent. The Bonus Shares are included in the amount reported as "Granted" in the Performance-Based Stock Awards table below.

Stock Options

The activity related to the Company's outstanding stock options during the nine months ended September 28, 2012 was as follows:

	Number of shares	Weighted average exercise price	Weighted average remaining contractual life (years)	Aggregate intrinsic value (in thousands)
Outstanding at January 1, 2012	22,627,885	$ 3.82		
Granted	6,034,883	$ 2.67		
NET outstanding options converted to Sonus options	994,800	$ 1.11		
Exercised	(113,164)	$ 1.39		
Forfeited	(2,063,146)	$ 2.85		
Expired	(1,275,244)	$ 4.90		
Outstanding at September 28, 2012	26,206,014	$ 3.49	6.31	$ 816
Vested or expected to vest at September 28, 2012	24,524,258	$ 3.55	6.14	$ 805
Exercisable at September 28, 2012	13,362,153	$ 4.36	3.95	$ 539

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(11) STOCK-BASED COMPENSATION PLANS (Continued)

The grant date fair value of stock options granted in the three and nine months ended September 28, 2012 was estimated using the Black-Scholes valuation model with the following assumptions:

	Three months ended September 28, 2012	Nine months ended September 28, 2012
Risk-free interest rate	0.67%	0.67%–0.89%
Expected dividend yield	—	—
Weighted average volatility	66.51%	67.58%
Expected life (years)	4.5	4.5

Additional information regarding the Company's stock options is as follows:

	Three months ended September 28, 2012	Nine months ended September 28, 2012
Weighted average grant date fair value of stock options granted	$ 1.10	$ 1.43
Total intrinsic value of stock options exercised (in thousands)	$ 64	$ 96
Cash received from the exercise of stock options (in thousands)	$ 83	$ 151

Restricted Stock Grants—Restricted Stock Awards and Restricted Stock Units

The Company's outstanding restricted stock grants consist of both restricted stock awards ("RSAs") and RSUs. The Company has no unvested RSUs other than those converted in connection with the NET acquisition. The activity related to the Company's unvested restricted stock grants for the nine months ended September 28, 2012 was as follows:

	Shares	Weighted average grant-date fair value
Unvested balance at January 1, 2012	602,403	$ 2.38
Granted	845,344	$ 2.67
Unvested NET RSUs converted to Sonus RSUs	82,110	$ 1.86
Vested	(335,000)	$ 2.75
Forfeited	(195,131)	$ 2.90
Unvested balance at September 28, 2012	999,726	$ 2.36

The total fair value of restricted stock grant shares that vested during the nine months ended September 28, 2012 was $0.9 million.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(11) STOCK-BASED COMPENSATION PLANS (Continued)

Performance-Based Stock Awards

The activity related to the Company's performance stock awards for the nine months ended September 28, 2012 was as follows:

	Shares	Weighted average grant-date fair value
Unvested balance at January 1, 2012	1,715,056	$ 3.08
Granted	421,348	$ 1.78
Vested	—	—
Forfeited	(1,715,056)	$ 3.08
Unvested balance at September 28, 2012	421,348	$ 1.78

At January 1, 2012, the Company had 1.7 million unvested shares of common stock related to performance-based stock awards. The performance conditions for these awards were not satisfied by December 31, 2011, the end of the performance period. As a result, these shares were forfeited on February 21, 2012, the date that the Company issued a press release reporting its financial results for the quarter and year ended December 31, 2011.

There are 2.0 million shares of the Company's common stock that are not included in the table above. As of September 28, 2012, the Company had established performance conditions for these awards; however, due to the level of discretion that the Compensation Committee has in determining the final number of shares earned under each performance-based award, the grant date criteria have not been met and accordingly, these shares are not reported as "granted" in the table above. The Company is recording stock-based compensation expense over the requisite service period for these awards based upon the most probable outcome of the performance conditions as set forth within each agreement. The Company recorded expense of $0.2 million in the three months ended September 28, 2012.

Stock-Based Compensation

The condensed consolidated statements of operations include stock-based compensation for the three and nine months ended September 28, 2012 and September 30, 2011 as follows (in thousands):

	Three months ended		Nine months ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Product cost of revenue	$ 41	$ 100	$ 130	$ 317
Service cost of revenue	211	258	595	1,032
Research and development	524	505	1,773	1,565
Sales and marketing	500	408	1,458	1,468
General and administrative	1,124	796	2,584	1,926
	$ 2,400	$ 2,067	$ 6,540	$ 6,308

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(11) STOCK-BASED COMPENSATION PLANS (Continued)

There was no income tax benefit for employee stock-based compensation expense for the nine months ended September 28, 2012 or September 30, 2011 due to the income tax valuation allowance recorded.

At September 28, 2012, there was $15.7 million, net of expected forfeitures, of unrecognized stock-based compensation expense related to unvested stock options and restricted stock awards. This expense is expected to be recognized over a weighted average period of approximately three years.

(12) MAJOR CUSTOMERS

The following customers each contributed 10% or more of the Company's revenue in at least one of the three and nine month periods ended September 28, 2012 and September 30, 2011:

	Three months ended		Nine months ended	
Customer	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
AT&T	*	22%	24%	13%
Bahamas Telecommunications Company Ltd.	*	*	*	20%
Level 3 Communications	12%	*	*	*

* Represents less than 10% of revenue

At September 28, 2012, one customer accounted for 10% or more of the Company's accounts receivable balance, representing approximately 11% of total accounts receivable. At December 31, 2011, one customer accounted for 10% or more of the Company's accounts receivable balance, representing approximately 21% of the Company's total 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

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(13) GEOGRAPHIC INFORMATION (Continued)

geographic area as a percentage of total revenue for the three and nine months ended September 28, 2012 and September 30, 2011:

	Three months ended		Nine months ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
United States	76%	63%	75%	58%
Japan	*	6	9	7
Other Asia Pacific	10	3	5	1
Europe, Middle East and Africa	13	26	10	13
Other	1	2	1	21
	100%	100%	100%	100%

* Represents less than 1% of revenue

Bahamas Telecommunications Company Ltd. ("Bahamas Telecom") accounted for approximately 20% of the Company's revenue in the nine months ended September 30, 2011. Bahamas Telecom is located in the Caribbean and is included as a component of "Other" in the table above.

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 28, 2012 and September 30, 2011 reflect the Company's 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 the Company's estimated tax expense for the full fiscal year. The estimated effective rates for the nine months ended September 28, 2012 and September 30, 2011 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.

The acquisition of NET was accounted for as a nontaxable business combination and the Company carried over the existing tax basis of the acquired assets and liabilities. Deferred taxes were recorded as part of the business combination based on the differences between the tax basis of the acquired assets or liabilities and their reported amounts for financial reporting purposes. The Company concluded that there was insufficient positive evidence to overcome the more objective negative evidence related to cumulative losses and other factors. Accordingly, the Company recorded a valuation allowance against the majority of the acquired deferred tax assets.

Following the acquisition, the Company intends to unilaterally elect under Section 338(g) of the Internal Revenue Code to have the transaction treated as an asset acquisition (i.e., a taxable transaction). The election is not considered part of the business combination and resulted in a step-up in the acquired assets and liabilities to fair market value for tax purposes. During the quarter ended September 28, 2012 as a result of the election, the Company reversed all of the deferred taxes related to the NET's assets, liabilities and net operating loss carryovers and the related valuation allowance

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(14) INCOME TAXES (Continued)

that were recorded in the business combination. Any resulting taxable gain from the election will be fully offset by NET's operating loss carryovers and no taxes will be payable by the Company as a result of the election.

(15) COMMITMENTS AND CONTINGENCIES

2001 IPO Litigation

In November 2001, a purchaser of the Company's common stock filed a complaint in the United States District court for the Southern District of New York (the "District Court") against the Company, two of its officers and the lead underwriters alleging violations of the federal securities laws in connection with the Company's initial public offering ("IPO") and seeking unspecified monetary damages. The purchaser sought to represent a class of persons who purchased the Company's common stock between the date of the IPO on May 24, 2000 and December 6, 2000. The amended complaint, filed in April 2002, alleged that the Company's registration statement contained false or misleading information or omitted to state material facts concerning the alleged receipt of undisclosed compensation by the underwriters and the existence of undisclosed arrangements between the underwriters and certain purchasers to make additional purchases in the after-market. The claims against the Company were asserted under Section 10(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 11 of the Securities Act of 1933, as amended (the "Securities Act"), and against the individual defendants under Sections 11 and 15 of the Securities Act and Sections 10(b) and 20(a) of the Exchange Act. Other plaintiffs had filed substantially similar class action cases against approximately 300 other publicly-traded companies and their IPO underwriters which, along with the actions against the Company, were transferred to a single federal judge for purposes of coordinated case management.

On July 15, 2002, the Company, collectively with the other issuers named as defendants in these coordinated proceedings, filed a collective motion to dismiss the consolidated amended complaints on various legal grounds common to all or most of the issuer defendants. The plaintiffs voluntarily dismissed the claims against many of the individual defendants, including the Company's officers named in the complaint. On February 19, 2003, the District Court granted a portion of the motion to dismiss by dismissing the Section 10(b) claims against certain defendants, including the Company, but denied the remainder of the motion as to the defendants.

On October 5, 2009, the District Court issued an opinion granting plaintiffs' motion for final approval of a revised proposed settlement, plan of distribution of the settlement fund and certification of the settlement classes. An Order and Final Judgment was entered on January 14, 2010. On January 13, 2012, the United States Court of Appeals for the Second Circuit issued a mandate dismissing an appeal, thereby upholding the January 14, 2010 Order and Final Judgment and ending this case. The outcome of this litigation did not have a material impact on the Company's condensed consolidated financial statements.

On October 5, 2007, Vanessa Simmonds, a purported shareholder of the Company, filed a complaint in the United States District Court for the Western District of Washington (the "Western District Court") for recovery of short-swing profits under Section 16(b) of the Exchange Act against the underwriters in the IPO in 2000. On February 28, 2008, the plaintiff filed an amended complaint

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

(15) COMMITMENTS AND CONTINGENCIES (Continued)

asserting substantially similar claims as set forth in the initial complaint. The amended complaint sought recovery against the underwriters for profits they received from the sale of the Company's common stock in connection with the IPO. The Company was named as a nominal defendant but has no liability for the asserted claims. No Sonus officers or directors were named in the amended complaint. Several other issuers and underwriters were subsequently named as defendants. On March 12, 2009, the Western District Court entered its judgment in the case and granted the moving issuers' motion to dismiss, finding plaintiff's demand letters were insufficient to put the issuers on notice of the claims asserted against them.

Following an appeal to the United States Court of Appeals for the Ninth Circuit (the "Ninth Circuit"), on December 2, 2010, the Ninth Circuit affirmed the Western District Court's decision to dismiss the moving issuers' cases (including the Company's) on the grounds that plaintiff's demand letters were insufficient to put the issuers on notice of the claims asserted against them and further ordered that the dismissals be made with prejudice. The Ninth Circuit, however, reversed and remanded the Western District Court's decision on the underwriters' motion to dismiss as to the claims arising from the non-moving issuers' IPOs, finding plaintiff's claims were not time-barred under the applicable statute of limitations. In remanding, the Ninth Circuit advised the non-moving issuers and underwriters to file in the Western District Court the same challenges to plaintiff's demand letters that moving issuers had filed.

On April 5, 2011, the plaintiff filed a Petition for Writ of Certiorari with the U.S. Supreme Court seeking reversal of the Ninth Circuit's December 2, 2010 decision relating to the adequacy of the pre-suit demand. On April 15, 2011, underwriter defendants filed a Petition for Writ of Certiorari with the U.S. Supreme Court seeking reversal of the Ninth Circuit's December 2, 2010 decision relating to the statute of limitations issue. On June 27, 2011, the U.S. Supreme Court denied the plaintiff's petition regarding the demand issue and granted the underwriter defendants' petition relating to the statute of limitations issue. Oral arguments on underwriters' petition were heard on November 29, 2011. On March 26, 2012, the U.S. Supreme Court vacated the Ninth Circuit's holding that petitioner's claims were not time-barred, and remanded the cases to the Western District Court for proceedings consistent with the U.S. Supreme Court's opinion. On June 7, 2012, the mandate of the Ninth Circuit was formally entered. On June 11, 2012, the case was concluded when the plaintiff voluntarily dismissed the case with prejudice as to the adequacy-of-the-pre-suit demand issue, and without prejudice as to all other issues.

Other

In addition, we are often a party to disputes and legal proceedings that we consider routine and incidental to our business. In the normal course of business, the Company enters into contractual commitments to purchase services, materials, components, and finished goods from suppliers. Under agreements with certain contract manufacturers, the Company may be liable for purchased raw materials procured for the Company by the contract manufacturer. Management does not expect the results of any of these actions to have a material effect on our business or condensed consolidated financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of the financial condition and results of operations of Sonus Networks, Inc. should be read in conjunction with the condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the audited financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2011, which was filed with the U.S. Securities and Exchange Commission on February 24, 2012.

Overview

We are a leading provider of next-generation session initiation protocol ("SIP")-based solutions, including Voice over Internet Protocol ("VoIP"), video and Unified Communications through secure, reliable and scalable Internet Protocol ("IP") networks. Our infrastructure solutions allow efficient and reliable delivery of voice and multimedia sessions over IP networks while allowing our customers to manage the flows of such sessions in their networks using business policies.

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

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

We continue to focus on the key elements of our strategy, which is designed to capitalize on our technology and market lead, and build a premier franchise in multimedia infrastructure solutions. We are currently focusing our major efforts on the following aspects of our business:

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

On August 24, 2012, we completed the acquisition of Network Equipment Technologies, Inc. ("NET"), a Delaware corporation, for a cash purchase price of $1.35 per share of outstanding NET common stock, or $41.5 million. We believe the acquisition of NET expands our SBC portfolio, opens new sales channels and adds a government installed base to our customer base. The financial results of NET are included in our financial results for the period subsequent to the acquisition.

In August 2012, we announced that we were implementing a restructuring initiative to streamline operations and reduce our operating costs. The restructuring plan resulted in a workforce reduction of approximately 90 people worldwide. In connection with this action, we recorded restructuring expense of $2.0 million for severance and related costs and the closing of our office in France in the third quarter of fiscal 2012.

We reported a loss from operations of $14.8 million for the three months ended September 28, 2012 and income from operations of $1.2 million for the three months ended September 30, 2011. We reported losses from operations of $32.8 million for the nine months ended September 28, 2012 and $17.0 million for the nine months ended September 30, 2011.

We reported a net loss of $15.6 million for the three months ended September 28, 2012 and net income of $1.9 million for the three months ended September 30, 2011. We reported net losses of $33.8 million for the nine months ended September 28, 2012 and $16.4 million for the nine months ended September 30, 2011.

Our revenue decreased by $9.3 million in the three months ended September 28, 2012, compared to the three months ended September 30, 2011, and by $6.4 million in the nine months ended September 28, 2012, compared to the nine months ended September 30, 2011. Our gross profit decreased by $9.8 million, to $32.4 million, in the three months ended September 28, 2012, compared to the three months ended September 30, 2011. Our gross profit increased by $8.2 million, to $107.0 million, in the nine months ended September 28, 2012, compared to the nine months ended September 30, 2011.

Our gross profit as a percentage of revenue ("total gross margin") was 56.9% in the three months ended September 28, 2012 and 63.6% in the three months ended September 30, 2011. Our total gross margin was 59.8% in the nine months ended September 28, 2012 and 53.3% in the nine months ended September 30, 2011.

Operating expenses increased $6.2 million, to $47.2 million, for the three months ended September 28, 2012, compared to $41.0 million for the three months ended September 30, 2011. Operating expenses increased $24.0 million, to $139.8 million, for the nine months ended September 28, 2012, compared to $115.8 million for the nine months ended September 30, 2011. Our operating expenses for both the three and nine months ended September 28, 2012 include $3.7 million in the aggregate of research and development, sales and marketing, and general and administrative expenses attributable to NET. Our operating expenses include acquisition-related expenses of $4.1 million in the three months ended September 28, 2012 and $5.1 million in the nine months ended September 30, 2012. Our operating expenses also include restructuring expense of $2.0 million in both the three and nine months ended September 28, 2012.

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

Critical Accounting Policies and Estimates

Our Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates and judgments on historical experience, knowledge of current conditions and beliefs of what could occur in the future given available information. We consider the following accounting policies to be both those most important to the portrayal of our financial condition and those that require the most subjective judgment. If actual results differ significantly from management's estimates and projections, there could be a material effect on our condensed consolidated financial statements. The significant accounting policies that we believe are the most critical include the following:

- Revenue recognition;
- Inventory valuation;
- 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, 2011, which was filed with the U.S. Securities and Exchange Commission on February 24, 2012. There were no significant changes to our critical accounting policies from December 31, 2011 through September 28, 2012, with the exception of the addition of the critical accounting policy below:

Business Combinations. We allocate the purchase price of acquired companies to identifiable assets acquired and liabilities assumed at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed and represents the expected future economic benefits arising from other assets acquired in the business combination that are not individually identified and separately recognized. Significant management judgments and assumptions are required in determining the fair value of assets acquired and liabilities assumed, particularly acquired intangible assets which typically are comprised of developed technology, trademarks and trade names, customer contracts/relationships, order backlog, internal use software and covenants not to compete.

The valuation of purchased intangible assets is principally based upon estimates of the future performance and cash flows from the acquired business. If different assumptions are used, it could materially impact the purchase price allocation and our financial position and results of operations. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. As a result, during the measurement period, which may be up to one year from the acquisition date, we record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill to the extent that we identify adjustments to the preliminary purchase price allocation.

Results of Operations

Three and Nine Months Ended September 28, 2012 and September 30, 2011

Revenue. Revenue for the three and nine months ended September 28, 2012 and September 30, 2011 was as follows (in thousands, except percentages):

	Three months ended		(Decrease) from prior year	
	September 28, 2012	September 30, 2011	$	%
Product	$ 33,520	$ 41,892	$ (8,372)	(20.0)%
Service	23,529	24,461	(932)	(3.8)%
Total revenue	$ 57,049	$ 66,353	$ (9,304)	(14.0)%

	Nine months ended		Increase (decrease) from prior year	
	September 28, 2012	September 30, 2011	$	%
Product	$ 107,517	$ 107,291	$ 226	0.2%
Service	71,481	78,133	(6,652)	(8.5)%
Total revenue	$ 178,998	$ 185,424	$ (6,426)	(3.5)%

Product revenue is comprised of sales of our communication infrastructure products. The products typically incorporated into our trunking and communication application solutions include our GSX9000 and GSX4000 Open Services Switches and our ASX Voice Application Server. The products typically incorporated into our SBC solutions include our SBC 9000 (formerly the NBS9000), SBC 5200 (formerly the NBS5200) and our new SBC 5100 Session Border Controllers.

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

Product revenue for the three and nine months ended September 28, 2012 and September 30, 2011 was comprised of the following (in thousands, except percentages):

	Three months ended		Increase (decrease) from prior year	
	September 28, 2012	September 30, 2011	$	%
Trunking and communication applications	$ 13,126	$ 31,494	$ (18,368)	(58.3)%
SBC	20,394	10,398	9,996	96.1%
Total product revenue	$ 33,520	$ 41,892	$ (8,372)	(20.0)%

	Nine months ended		Increase (decrease) from prior year	
	September 28, 2012	September 30, 2011	$	%
Trunking and communication applications	$ 60,449	$ 86,890	$ (26,441)	(30.4)%
SBC	47,068	20,401	26,667	130.7%
Total product revenue	$ 107,517	$ 107,291	$ 226	0.2%

We recognized $1.8 million of product revenue in the aggregate from 40 new customers, including 29 new NET customers, in the three months ended September 28, 2012 and $4.8 million of product revenue in the aggregate from 50 new customers, including 29 new NET customers, in the nine months ended September 28, 2012. We recognized $24.4 million of product revenue from a multi-year project for Bahamas Telecommunications Company Ltd. ("Bahamas Telecom") that was completed and for which all revenue recognition criteria were met in the first quarter of fiscal 2011. Bahamas Telecom was our only new customer for both products and service revenue in the nine months ended September 30, 2011. Our product revenue for both the three and nine months ended September 28, 2012 includes $5.9 million attributable to NET for the period since the acquisition.

New customers are those from whom we recognize revenue for the first time, although we may have had outstanding orders from such customers for several years, especially for certain multi-year projects. The timing of the completion of customer projects, revenue recognition criteria satisfaction and customer payments included in multiple element arrangements may cause our product revenue to fluctuate from one quarter to the next.

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 28, 2012 and September 30, 2011 was comprised of the following (in thousands, except percentages):

	Three months ended		(Decrease) from prior year	
	September 28, 2012	September 30, 2011	$	%
Maintenance	$ 18,665	$ 19,159	$ (494)	(2.6)%
Professional services	4,864	5,302	(438)	(8.3)%
Total service revenue	$ 23,529	$ 24,461	$ (934)	(3.8)%

	Nine months ended		(Decrease) from prior year	
	September 28, 2012	September 30, 2011	$	%
Maintenance	$ 55,994	$ 56,869	$ (875)	(1.5)%
Professional services	15,487	21,264	(5,777)	(27.2)%
Total service revenue	$ 71,481	$ 78,133	$ (6,652)	(8.5)%

The decrease in service revenue in the three months ended September 28, 2012 compared to the three months ended September 30, 2011 is attributable to $0.4 million of lower professional services revenue and $0.5 million of lower maintenance revenue. The decrease in service revenue in the nine months ended September 28, 2012 compared to the nine months ended September 30, 2011 is attributable to $5.8 million of lower professional services revenue and $0.9 million of lower maintenance revenue. In the nine months ended September 30, 2011, we recognized $11.5 million of service revenue from the completion of the Bahamas Telecom project described above, which was comprised of $1.2 million of maintenance revenue and $10.3 million of professional services revenue. The completion of this large, multi-year project contributed to the decrease in total service revenue in the nine months ended September 28, 2012 compared to the nine months ended September 30, 2011. The timing of the completion of projects for revenue recognition, customer payments and maintenance contracts may cause our services revenue to fluctuate from one quarter to the next. Our service revenue for both the three and nine months ended September 28, 2012 includes $1.1 million attributable to NET for the period since the acquisition.

The following customers each contributed 10% or more of our revenue in at least one of the three and nine month periods ended September 28, 2012 and September 30, 2011:

	Three months ended		Nine months ended	
Customer	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
AT&T	*	22%	24%	13%
Bahamas Telecommunications Company Ltd.	*	*	*	20%
Level 3 Communications	12%	*	*	*

* Represents less than 10% of revenue

International revenue was approximately 24% of our revenue in the three months ended September 28, 2012 and approximately 37% of our revenue in the three months ended September 30, 2011. International revenue was approximately 25% of our revenue in the nine months ended September 28, 2012 and approximately 42% of our revenue in the nine months ended September 30, 2011. Due to the timing of project completions, we expect that the domestic and international components as a percentage of our revenue will fluctuate from quarter to quarter and year to year.

Our deferred product revenue was $10.7 million at September 28, 2012 and $8.9 million at December 31, 2011. Our deferred service revenue was $31.6 million at September 28, 2012 and $41.3 million at December 31, 2011. Our deferred revenue balance may fluctuate as a result of the timing of revenue recognition, customer payments, maintenance contract renewals, contractual billing rights and maintenance revenue deferrals included in multiple-element arrangements.

Cost of Revenue/Gross Profit. Our cost of revenue consists primarily of amounts paid to third-party manufacturers for purchased materials and services, royalties, manufacturing and professional services personnel and related costs, and provision for inventory obsolescence. Our cost of revenue and gross profit as a percentage of revenue ("gross margin") for the three and nine months ended September 28, 2012 and September 30, 2011 was as follows (in thousands, except percentages):

	Three months ended		Increase from prior year	
	September 28, 2012	September 30, 2011	$	%
Cost of revenue				
Product	$ 11,768	$ 11,504	$ 264	2.3%
Service	12,839	12,633	206	1.6%
Total cost of revenue	$ 24,607	$ 24,137	$ 470	1.9%
Gross margin				
Product	64.9%	72.5%		
Service	45.4%	48.4%		
Total gross margin	56.9%	63.6%		

	Nine months ended		(Decrease) from prior year	
	September 28, 2012	September 30, 2011	$	%
Cost of revenue				
Product	$ 31,988	$ 44,283	$ (12,295)	(27.8)%
Service	40,019	42,364	(2,345)	(5.5)%
Total cost of revenue	$ 72,007	$ 86,647	$ (14,640)	(16.9)%
Gross margin				
Product	70.2%	58.7%		
Service	44.0%	45.8%		
Total gross margin	59.8%	53.3%		

The decrease in product gross margin in the three months ended September 28, 2012 was primarily due to higher royalty costs, coupled with the inclusion of NET's historically higher cost base in our results, which decreased our product gross margin by approximately five percentage points. Our product gross margin for the three months ended September 28, 2012 was also negatively impacted by higher manufacturing-related costs against lower product revenue, which decreased our product gross margin by approximately three percentage points. The increase in product gross margin in the nine months ended September 28, 2012 was primarily due to lower third-party costs coupled with product mix, which increased our product gross margin by approximately 13 percentage points, partially offset by higher manufacturing operations costs, which decreased our product gross margin by approximately two percentage points. Our product gross margin in the nine months ended September 28, 2012 benefitted from the absence of third-party costs related to the Bahamas Telecom project, which was completed in the first quarter of fiscal 2011, and which had negatively impacted our product gross margin for the nine months ended September 30, 2011 by approximately ten percentage points.

The decrease in service gross margin in the three months ended September 28, 2012 was primarily attributable to higher costs within the service organization, which decreased our service gross margin by approximately three percentage points. The decrease in service gross margin in the nine months ended September 28, 2012 was primarily attributable to higher costs within the service organization, which decreased our service gross margin by approximately eight percentage points, partially offset by lower third-party costs, which increased our service gross margin by approximately six percentage points. Our service gross margin in the nine months ended September 28, 2012 benefitted from the absence of costs for the lower gross margin Bahamas Telecom project, which had negatively impacted our service gross margin for the nine months ended September 30, 2011 by approximately six percentage points. The higher costs within the service organization are primarily related to increased headcount in our customer support organization in support of our expanding customer base and new product initiatives. Our service cost of revenue is relatively fixed in advance of any particular quarter and therefore, changes in service revenue will typically have a significant impact on service gross margins.

Research and Development Expenses. Research and development expenses consist primarily of salaries and related personnel expenses and prototype costs related to the design, development, testing and enhancement of our products.

Research and development expenses for the three and nine months ended September 28, 2012 and September 30, 2011 were as follows (in thousands, except percentages):

	September 28, 2012	September 30, 2011	Increase (decrease) from prior year $	%
Three months ended	$ 15,612	$ 16,231	$ (619)	(3.8)%
Nine months ended	$ 51,094	$ 47,026	$ 4,068	8.7%

Our research and development expenses for the three months ended September 28, 2012 include $1.2 million of expense attributable to NET for the period since the acquisition. The decrease in research and development expenses in the three months ended September 28, 2012 is attributable to $0.4 million of lower expense for product development (third-party development, prototype and test equipment costs) and $0.5 million of lower employee-related costs, comprised primarily of lower salary expense, to support our product initiatives, partially offset by $0.3 million of net increases in other research and development expenses.

Our research and development expenses for the nine months ended September 28, 2012 include $1.2 million of expense attributable to NET for the period since the acquisition. The increase in research and development expenses in the nine months ended September 28, 2012 is attributable to $4.2 million of higher employee-related costs, partially offset by $0.1 million of net decreases in other research and development expenses. The increase in employee-related expenses represents higher salary and related expenses primarily resulting from increased headcount.

Some aspects of our research and development efforts require significant short-term expenditures, the timing of which may cause significant variability in our expenses. We believe that rapid technological innovation is critical to our long-term success, and we are tailoring our investments to meet the requirements of our customers and market. We believe that our research and development expenses for fiscal 2012 will increase from fiscal 2011 levels due to our increased focus on new product development and the acquisition of NET.

Sales and Marketing Expenses. Sales and marketing expenses consist primarily of salaries and related personnel costs, commissions, travel and entertainment expenses, promotions, customer trial and evaluations inventory and other marketing and sales support expenses. Sales and marketing expenses for the three and nine months ended September 28, 2012 and September 30, 2011 were as follows (in thousands, except percentages):

	September 28, 2012	September 30, 2011	Increase from prior year $	%
Three months ended	$ 17,613	$ 14,651	$ 2,962	20.2%
Nine months ended	$ 56,339	$ 42,246	$ 14,093	33.4%

Our sales and marketing expenses for the three months ended September 28, 2012 include $2.0 million of expense attributable to NET for the period since the acquisition. The increase in sales and marketing expenses in the three months ended September 28, 2012 is attributable to $2.5 million of higher employee-related expenses, $0.3 million of higher expense related to evaluation equipment at customer sites, $0.1 million of higher marketing and trade show expenses and $0.1 million of net increases in other sales and marketing expenses. The higher employee-related expense is primarily attributable to higher headcount related to our continued focus on expanded geographical coverage as well as the acquisition of NET, and is comprised of $2.6 million of higher salary-related and commissions expense and $0.1 million of higher stock-based compensation expense, partially offset by $0.2 million of lower employee recruiting, travel and training expenses.

Our sales and marketing expenses for the nine months ended September 28, 2012 include $2.0 million of expense attributable to NET for the period since the acquisition. The increase in sales and marketing expenses in the nine months ended September 28, 2012 is attributable to $13.4 million of higher employee-related expenses, $0.5 million of higher marketing and trade show expenses and $0.2 million of higher expense for evaluation equipment. The higher employee-related expense is primarily attributable to the aforementioned higher headcount and is comprised of $11.5 million of higher salary-related and commissions expense and $1.9 million of higher employee recruiting, travel and training expenses.

We believe that our sales and marketing expenses will increase in fiscal 2012 from fiscal 2011 levels, primarily attributable to higher personnel and related costs, including such costs attributable to the acquisition of NET.

General and Administrative Expenses. General and administrative expenses consist primarily of salaries and related personnel costs for executive and administrative personnel, recruiting expenses and audit and professional fees. General and administrative expenses for the three and nine months ended September 28, 2012 and September 30, 2011 were as follows (in thousands, except percentages):

	September 28, 2012	September 30, 2011	(Decrease) from prior year $	(Decrease) from prior year %
Three months ended	$ 7,939	$ 10,133	$ (2,194)	(21.6)%
Nine months ended	$ 25,302	$ 26,526	$ (1,224)	(4.6)%

On August 7, 2012, we entered into a letter agreement with Raymond P. Dolan, our President and Chief Executive Officer ("Mr. Dolan"), under which Mr. Dolan elected to accept shares of restricted stock in lieu of base salary through December 31, 2012. Mr. Dolan also elected to receive his fiscal year 2012 target bonus, if earned, in the form of restricted shares. As a result, the expense for Mr. Dolan's base salary and target bonus is now reported as a component of stock-based compensation expense within general and administrative employee-related expenses, resulting in lower salary and bonus expense offset by higher stock-based compensation expense.

Our general and administrative expenses for the three months ended September 28, 2012 include $0.5 million of expense attributable to NET for the period since the acquisition. The decrease in general and administrative expenses in the three months ended September 28, 2012 is attributable to $1.0 million of lower expense related to foreign currency translation, $0.8 million of lower employee-related expenses and $0.4 million of net decreases in other general and administrative expenses. The decrease in employee-related expenses is comprised of $1.2 million of lower salary and related expenses, partially offset by $0.3 million of higher stock-based compensation and $0.1 million of higher expenses for employee recruiting and training.

Our general and administrative expenses for the nine months ended September 28, 2012 include $0.5 million of expense attributable to NET for the period since the acquisition. The decrease in general and administrative expenses in the nine months ended September 28, 2012 is attributable to $0.8 million of lower audit and professional fees, $0.5 million of lower expense related to foreign currency translation and $0.5 million of net decreases in other general and administrative expenses, partially offset by $0.6 million of higher employee-related expenses. The increase in employee-related expenses is comprised of $0.7 million of higher stock-based compensation, partially offset by $0.1 million of lower salary and related expenses.

We believe that our general and administrative expenses will increase in fiscal 2012 from fiscal 2011 levels, primarily due to higher employee-related expenses, including such costs attributable to the acquisition of NET.

Acquisition-Related Expenses. Acquisition-related expenses include those costs related to the acquisition of NET that would otherwise not have been incurred by us. These costs are primarily comprised of professional and service fees, such as legal, audit, consulting, transfer agent and other fees, and expenses related to cash payments to former NET executives under their NET change of control agreements. We recorded acquisition-related expenses of $4.1 million in the three months ended September 28, 2012, comprised of $2.0 million of professional and services fees and $2.1 million related to change of control agreements. We recorded acquisition-related expenses of $5.1 million in the nine months ended September 28, 2012, comprised of $3.0 million of professional and services fees and $2.1 million related to change of control agreements.

Restructuring Expense. In August 2012, we announced and initiated a plan to streamline operations and reduce operating costs, including a corporate-wide restructuring plan. In the three months ended September 28, 2012, we recorded restructuring expense of $2.0 million related to this restructuring initiative, comprised of $1.9 million of expense to reduce our workforce by approximately 90 employees worldwide and $0.1 million related to the consolidation of our offices in France. We did not record restructuring expense in either the three or nine months ended September 30, 2011. We expect to record additional restructuring expense of $6.0 million in the fourth quarter of fiscal 2012, comprised of approximately $5 million for facility-related charges and $1 million for severance and other related charges.

Interest Income, net. Interest income consists of interest earned on our cash equivalents, marketable securities and long-term investments. Interest expense relates to interest on capital lease obligations and, in the three and nine months ended September 28, 2012, interest on the debt assumed in connection with the acquisition of NET. Interest expense in the three and nine months ended September 30, 2011 relates to interest on capital lease obligations.

We reported interest income, net, of $20,000 for the three months ended September 28, 2012, compared to $0.3 million for the nine months ended September 30, 2011. The decrease in the three months ended September 28, 2012 is attributable to a lower average portfolio yield on lower invested amounts in the current year period, coupled with one month of interest expense resulting from our assumption of $34.2 million of debt in connection with our acquisition of NET. However, $23.7 million of aggregate principal amount of assumed debt was paid on September 26, 2012 and $8.2 million of assumed debt and the related accrued interest and fees, was paid on October 12, 2012. We recorded interest income, net, of $0.5 million for the nine months ended September 28, 2012, compared to $1.0 million for the nine months ended September 30, 2011. The decrease in the nine months ended September 28, 2012 is attributable to a lower average portfolio yield on lower invested amounts in the current year period, as well as the aforementioned interest expense related to the assumed NET debt.

Income Taxes. We recorded provisions for income taxes of $1.4 million for the nine months ended September 28, 2012 and $0.4 million for the nine months ended September 30, 2011. 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 provisions for income taxes for the nine months ended September 28, 2012 and September 30, 2011 represent forecasted tax expense on the earnings of our foreign operations. Our effective tax rate for both three year periods was less than the statutory federal and state rates due to the existence of a valuation allowance on our domestic losses.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Liquidity and Capital Resources

Our condensed consolidated statements of cash flows are summarized as follows (in thousands):

	Nine months ended		
	September 28, 2012	September 30, 2011	Change
Net loss	$ (33,782)	$ (16,433)	$ (17,349)
Adjustments to reconcile net loss to cash flows used in operating activities	16,548	15,343	1,205
Changes in operating assets and liabilities	(10,848)	(15,119)	4,271
Net cash used in operating activities	$ (28,082)	$ (16,209)	$ (11,873)
Net cash provided by investing activities	$ 17,163	$ 29,405	$ (12,242)
Net cash provided by (used in) financing activities	$ (22,116)	$ 1,020	$ (23,136)

Our cash, cash equivalents, marketable securities and long-term investments totaled $303.3 million at September 28, 2012.

Our operating activities used $28.1 million of cash in the nine months ended September 28, 2012, compared to $16.2 million of cash used in operating activities in the nine months ended September 30, 2011.

Cash used in operating activities in the nine months ended September 28, 2012 was primarily the result of lower deferred revenue, accrued expenses and other long-term liabilities, and accounts payable, as well as higher other operating assets and inventory. These amounts were partially offset by lower accounts receivable. The decrease in accrued expenses and other long-term liabilities primarily reflects income tax payments. The increase in other operating assets is primarily related to pre-payments of royalties, licenses and maintenance. The increase in inventory levels is primarily due to purchases of materials to fulfill our expected shipments in the near-term. The decrease in accounts receivable primarily reflects our continued focus on cash collections, coupled with lower revenue. Our net loss, adjusted for non-cash items such as depreciation, amortization and stock-based compensation, used $17.2 million of cash.

Cash used in operating activities in the nine months ended September 30, 2011 was primarily the result of lower deferred revenue, accrued expenses and accounts payable. These amounts were offset by lower inventory, other operating assets and accounts receivable. The reduction in deferred revenue is primarily attributable to a multi-year project for which revenue had been previously deferred. The reduction in accrued expenses is primarily related to employee compensation and related costs, including payments made in connection with our Company-wide employee incentive bonus program and payments in 2011 related to the departures in 2010 of our former President and Chief Executive Officer and our former Executive Vice President and Chief Operating Officer. The lower inventory levels are primarily related to the recognition of deferred cost of goods sold in connection with the completion of the previously discussed multi-year project, partially offset by increased inventory levels as we transitioned to our new contract manufacturer. The decrease in accounts receivable primarily reflects payments in the current year. Our net loss, adjusted for non-cash items such as depreciation, amortization and stock-based compensation, used $1.1 million of cash.

Our investing activities provided $17.2 million of cash in the nine months ended September 28, 2012, comprised of $60.5 million of net maturities of marketable securities, partially offset by $35.5 million of cash paid, net of cash acquired, for the acquisition of NET on August 24, 2012. We used $7.8 million for investments in property and equipment in the nine months ended September 28, 2012. Our investing activities provided $29.4 million of cash in the nine months ended September 30, 2011, comprised of $40.4 million of net maturities of marketable securities, partially offset by $11.0 million of investments in property and equipment.

Our financing activities used $22.1 million of cash in the nine months ended September 28, 2012, comprised of $23.7 million for the settlement of the $7^3/4$% redeemable convertible subordinated debentures assumed in connection with the acquisition of NET, $0.2 million of cash used to pay withholding obligations to the net share settlement of restricted stock awards upon vesting and $0.1 million for payments on our capital leases for office equipment. These amounts were partially offset by $1.7 million of proceeds from the sale of our common stock in connection with our Amended and Restated 2000 Employee Stock Purchase Plan ("ESPP") and $0.2 million of proceeds from the exercise of stock options. Our financing activities provided $1.0 million of cash in the nine months ended September 30, 2011, comprised of $1.5 million of proceeds from the sale of our common stock in connection with our ESPP and $0.8 million of proceeds from the exercise of stock options. These amounts were partially offset by $1.2 million of cash used to pay withholding obligations related to the net share settlement of restricted stock awards upon vesting and $66,000 for payments on our capital leases for office equipment.

Based on our current expectations, we believe our cash, cash equivalents, marketable securities and long-term investments will be sufficient to meet our anticipated cash needs for working capital and capital expenditures, including the payment of $8.2 million we made in October 2012 for the redemption of the majority of the $3^3/4$% convertible senior notes assumed in connection with our acquisition of NET and restructuring initiatives, for at least the next 12 months. However, it is difficult to predict future liquidity requirements with certainty. The rate at which we will use cash will be dependent on the cash needs of future operations, including changes in working capital, which will, in turn, be directly affected by, among other things, the levels of demand for our products, the timing and rate of expansion of our business, the resources we devote to developing our products and any litigation settlements. We anticipate devoting substantial capital resources to continue our research and development efforts, to maintain our sales, support and marketing operations and for other general corporate activities, as well as to vigorously defend against existing and potential litigation. See Note 15 to our condensed consolidated financial statements for a description of our legal contingencies.

Recent Accounting Pronouncements

On June 16, 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* ("ASU 2011-05"), which revises the manner in which entities present comprehensive income in their financial statements. The new guidance requires companies to report components of comprehensive income in either: (1) a continuous statement of comprehensive income; or (2) two separate consecutive statements. ASU 2011-05 does not change the items that must be reported in other comprehensive income. On December 23, 2011, the FASB issued ASU No. 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* ("ASU 2011-12"), which defers certain provisions of ASU 2011-05, including the provision that requires entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. The unaffected provisions of ASU

2011-05 became effective for us in our reporting of the first quarter of fiscal 2012. The adoption of ASU 2011-05 did not have any impact on our results of operations, financial position or cash flows.

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 fiscal year ended December 31, 2011.

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 the design and operation 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 28, 2012.

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 15(d)-15(f) under the Exchange Act) during the fiscal quarter ended September 28, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

We are a party to the legal proceedings described in Part I, Item 3, "Legal Proceedings" of our Annual Report on Form 10-K for the year ended December 31, 2011 and Note 15 of this Quarterly Report on Form 10-Q. There were no material developments to these legal proceedings in the three months ended September 28, 2012.

Item 1A. Risk Factors

We have revised and re-ordered our discussion of the risk factors affecting our business since those presented in our Annual Report on Form 10-K, Part I, Item 1A, for the fiscal year ended December 31, 2011. The following discussion includes eight revised risk factors ("We are enhancing our sales strategy, which will include more significant engagements with distribution, channel and systems integrator partners to resell our products. Disruptions to, or our failure to effectively develop and manage, these partners and the processes and procedures that support them could adversely affect our ability to generate revenues from the sale of our products. If we do not have adequate personnel, experience and resources to manage the relationships with these partners and to fulfill our responsibilities under such arrangements, such shortcomings could lead to the decrease of the sales of our products and our operating results could suffer", "If we fail to realize the anticipated benefits from the acquisition of Network Equipment Technologies, Inc. on a timely basis, or at all, our business and financial condition may be adversely affected", "The acquisition of NET may result in restructuring charges that could adversely affect the financial results of the combined company", "We depend upon four 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 change any of our manufacturers, qualifying a new contract manufacturer and commencing commercial scale production are expensive and time-consuming activities and could affect our business", "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", "If we fail to hire and retain needed personnel, the implementation of our business plan could slow or our future growth could be jeopardized", "Man-made problems, such as computer viruses, hacking or terrorism, and natural disasters may disrupt our operations and harm our operating results", and "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") and two new risk factors ("The market for some of our products depends on the availability and demand for other vendors' products" and "A portion of our revenue is generated from government sales, which is a new line of business for us due to our recent acquisition of NET. Disruptions to, or our failure to effectively develop, manage, and maintain our government customer relationships could adversely affect our ability to generate revenue from the sales of certain of our products. Further, such government sales are subject to potential delays and cutbacks, require specific development efforts, and impose significant compliance obligations") that reflect material developments subsequent to the discussion of risk factors included in our most recent Annual Report on Form 10-K for the fiscal year ended December 31, 2011. Except for the ten risk factors noted above, there have been no material changes in our assessment of our risk factors from those set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011. 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. Generally, purchases by service providers of telecommunications equipment from manufacturers have been unpredictable and clustered, rather than steady, as the service providers build out their networks. The primary factors that may affect our revenues and operating results include but are not limited to the following:

- consolidation within the telecommunications industry, including acquisitions of or by our customers;
- general economic conditions in our markets, both domestic and international, as well as the level of discretionary IT spending;
- competitive conditions in our markets, including the effects of new entrants, consolidation, technological innovation and substantial price discounting;
- fluctuation in demand for our voice infrastructure products and services, and the timing and size of customer orders;
- fluctuations in foreign exchange rates;
- cancellation or deferral of existing customer orders or the renegotiation of existing contractual commitments;
- mix of product configurations sold;
- length and variability of the sales cycle for our products;
- application of complex revenue recognition accounting rules to our customer arrangements;
- timing of revenue recognition;
- changes in our pricing policies, the pricing policies of our competitors and the prices of the components of our products;
- market acceptance of new products and product enhancements that we offer and our services;
- 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 manufacturer's 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.

As with other telecommunications product suppliers, we typically recognize a portion of our revenue in a given quarter from sales booked and shipped in the last weeks of that quarter. As a result, delays in customer orders may result in delays in shipments and recognition of revenue beyond the end of a given quarter. Additionally, it can be difficult for us to predict the timing of receipt of major customer orders, and we are unable to control timing decisions made by our customers. As a result, our quarterly operating results are difficult to predict even in the near term and a delay in an anticipated sale past the end of a particular quarter may negatively impact our results of operations for that quarter, or in some cases, that year. Therefore, we believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance. If our revenue or operating results fall below the expectations of investors or securities analysts or below any guidance we may provide to the market, the price of our common stock could decline substantially. Such a stock price decline could also occur when we have met our publicly stated revenue and/or earnings guidance.

A significant portion of our operating expenses is fixed in the short term. If revenues for a particular quarter are below expectations, we may not be able to reduce costs and expenses proportionally for that quarter. Any such revenue shortfall would, therefore, have a significant effect on our operating results for that quarter.

We have incurred net losses and may incur additional net losses.

We incurred net losses in fiscal 2011, fiscal 2010 and fiscal 2009. 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.

A majority of our revenue is currently generated from a finite number of customers. We will not be successful if we do not grow our customer base. Additionally, if we are unable to generate recurring business from these existing customers, our consolidated financial statements could be materially and adversely affected.

To date, we have shipped our products to a limited number of customers and our future success will depend on our ability to attract additional customers beyond our current limited number. In fiscal 2011, two customers, Bahamas Telecommunications Company Ltd. and AT&T, each contributed more than 10% of our revenue, representing approximately 26% of our revenue in the aggregate. In fiscal 2010, one customer, AT&T, contributed approximately 21% of our revenue. Factors that may affect our ability to grow our customer base include the following:

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

If we are unable to expand our customer base, we will be forced to rely on generating recurring revenue from existing customers which may not be successful. We expect that in the foreseeable future, the majority of our revenue will continue to depend on sales of our products to a limited number of existing customers. Factors that may affect our ability to generate recurring revenues from our existing customers include the following:

- customer willingness to implement our new voice infrastructure products;
- acquisitions of or by our customers;
- delays or difficulties that we may incur in completing the development and introduction of our planned products or product enhancements;

- failure of our products to perform as expected; and
- difficulties we may incur in meeting customers' delivery requirements.

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

We are enhancing our sales strategy, which will include more significant engagements with distribution, channel and systems integrator partners to resell our products. Disruptions to, or our failure to effectively develop and manage, these partners and the processes and procedures that support them could adversely affect our ability to generate revenues from the sale of our products. If we do not have adequate personnel, experience and resources to manage the relationships with these partners and to fulfill our responsibilities under such arrangements, such shortcomings could lead to the decrease of the sales of our products and our operating results could suffer.

We are enhancing our sales strategy, which will include more significant engagements with distribution and channel partners to resell our products. In addition, some of our target customers, including the government, rely on systems integrators to incorporate new equipment or services into their networks. Our future success is dependent upon establishing and maintaining successful relationships with a variety of value-added distribution, channel and systems integrator partners. While we have begun the process of identifying and entering into agreements with software application, system integrator and OEM or resale partners, we will need to engage more partners in these areas for us to be successful. We may also need to pursue strategic partnerships with vendors who have broader technology or product offerings in order to compete with end-to-end solution providers. In addition, many of the enterprise markets we are pursuing require a broad network of resale partners in order to achieve effective distribution.

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

In addition, we recognize a portion of our revenue based on a sell-through model using information provided by our partners. If those partners provide us with inaccurate or untimely information, the amount or timing of our revenues could be adversely affected. We may also experience financial failure of our partners, which could result in our inability to collect accounts receivable in full.

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. However, we continue to be dependent upon our voice infrastructure products, and our revenues will continue to depend upon their commercial success for the foreseeable future. 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.

To be successful in our industry requires large investments in technology and creates exposure to rapid technological and market changes. We spend a significant amount of time, money and resources developing new technology, products and solutions. Our strategic plan includes accelerating the shift in our investments from mature technologies that previously generated significant revenue for us toward certain next-generation technologies as well as working with more channel partners to sell our products. In order for us to be successful, our technologies, products and solutions must be accepted by relevant standardization bodies and by the industry as a whole. Our choices of specific technologies to pursue, and those to de-emphasize, may prove to be inconsistent with our customers' investment spending. Moreover, if we invest in the development of technologies, products and solutions that do not function as expected, are not adopted by the industry, are not ready in time, are not accepted by our customers as quickly as anticipated or are not successful in the marketplace, our sales and earnings may suffer and, as a result, our stock price could decline. As technology advances, we may not be able to respond quickly or effectively to developments in the market for our products, or new industry standards may emerge and could render our existing or future products obsolete. If our products become technologically obsolete, we may be unable to sell our products in the marketplace and generate revenues. 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.

While we intend to develop and introduce new products and enhancements to existing products in the future, our current revenues depend upon the commercial success of our TDM-to-IP and our all-IP voice infrastructure products and solutions, and we believe this will remain true for the foreseeable future. If the market for these products declines, or if we are unable to maintain at least our share of that market, our operating results could suffer.

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

On August 3, 2012, we adopted a restructuring initiative to streamline operations and reduce our operating costs. During fiscal 2009 and 2010 we had a number of restructuring activities, including office closings and lay-offs. These restructurings and any future restructurings, should it become necessary for us to continue to restructure our business due to worldwide market conditions or other factors that reduce the demand for our products and services, could adversely affect our ability to execute our business strategy in a number of ways, including through:

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

- reduced ability to execute effectively internal administrative processes, including the implementation of key information technology programs.

If we fail to realize the anticipated benefits from the acquisition of Network Equipment Technologies, Inc. on a timely basis, or at all, our business and financial condition may be adversely affected.

We may fail to realize the anticipated benefits from the acquisition of Network Equipment Technologies, Inc. ("NET") on a timely basis, or at all, for a variety of reasons, including the following:

- problems or delays in assimilating or transitioning to Sonus the acquired operations, systems, processes, controls, technologies, products or personnel;
- loss of acquired customer accounts;
- unanticipated costs associated with the acquisition;
- failure to identify in the due diligence process or assess the magnitude of certain liabilities we are assuming in the acquisition, which could result in unexpected litigation or regulatory exposure, unfavorable accounting treatment, unexpected increases in taxes due, a loss of anticipated tax benefits, significant issues with product quality or development, or other adverse effects on our business, operating results or financial condition;
- multiple or overlapping product lines as a result of our acquisitions that are offered, priced and supported differently, which could cause customer confusion and delays;
- higher than anticipated costs in continuing support and development of acquired products;
- diversion of management's attention from our core business and the challenges of managing larger and more widespread operations resulting from the acquisition;
- adverse effects on existing business relationships of Sonus or NET with the respective suppliers, licensors, contract manufacturers, customers, distributors, resellers and industry experts;
- significant impairment, exit and/or restructuring charges if the products or technologies acquired in the acquisition do not meet our sales expectations or are unsuccessful;
- insufficient revenue to offset increased expenses associated with the acquisition;
- risks associated with entering markets in which we have no or limited prior experience;
- potential loss of NET's or our own employees; and/or
- failure to properly integrate internal controls and financial systems of the combined companies.

If we are not able to successfully manage these issues, the anticipated benefits and efficiencies of the NET acquisition may not be realized fully or at all, or may take longer to realize than expected, and our ability to compete, our revenue and gross margins and our results of operations may be adversely affected.

The acquisition of NET may result in restructuring charges that could adversely affect the financial results of the combined company.

The financial results of Sonus and NET as a combined company may be adversely affected by cash expenses and non-cash accounting charges incurred in connection with the combination. The amount and timing of these possible charges are not yet known. 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 or acquisitions we make could be difficult to integrate, disrupt our business, dilute shareholder value and seriously harm our financial condition.

We are not currently a party to any pending acquisition agreements. However, we may acquire additional businesses, products or technologies in the future. Acquisitions are inherently risky and no assurance can be given that our future acquisitions will be successful or will not materially and adversely affect our business, operating results or financial condition. We expect to continue to review opportunities to acquire other businesses or technologies that would add to our existing product line, complement and enhance our current products, expand the breadth of our markets, enhance our technical capabilities or otherwise offer growth opportunities. If we make further acquisitions, we could, among other things:

- issue stock that would dilute existing stockholders' percentage ownership;
- incur debt or assume liabilities;
- reduce significantly our cash and investments;
- incur significant impairment charges related to the write-off of goodwill and intangible assets;
- incur significant amortization expenses related to intangible assets; and/or
- incur large and immediate write-offs for in-process research and development and stock-based compensation.

Mergers and acquisitions are inherently risky and subject to many factors outside of our control, and we cannot be certain that we would be successful in overcoming problems in connection with our past or future acquisitions. Our inability to do so could significantly harm our business, revenues, and results of operations.

Worldwide efforts to contain capital spending, general economic uncertainty and a weakened global economy could have a material adverse effect on us.

One factor that significantly affects our operating results is the impact of economic conditions on the willingness of our current and potential customers to make capital investments. Given the current state of the economy, we believe that customers continue to be cautious about sustained economic growth and have tried to maintain or improve profitability through cost control and constrained capital spending, which places additional pressure on IT departments to demonstrate acceptable return on investment. Some of our current or prospective customers may cancel or delay spending on the development or roll-out of capital and technology projects with us due to the continuing economic uncertainty and, consequently, our results of operations may be adversely affected. In addition, the current uncertain worldwide economic environment and market instability make it increasingly difficult for us, our customers and our suppliers to accurately forecast future product demand, which could result in an inability to satisfy demand for our products and a loss of market share. Our revenues are likely to decline in such circumstances and our profit margins could erode, or we could incur significant losses.

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

- reduced demand for our products as a result of our customers choosing to refrain from building capital intensive networks;
- increased price competition for our products, not only from our competitors, but also as a consequence of customers disposing of unutilized products;

- risk of excess and obsolete inventories;
- excess facilities and manufacturing capacity; and/or
- higher overhead costs as a percentage of revenue and higher interest expense.

Continuing turmoil in the geopolitical environment in many parts of the world, including terrorist activities and military actions, particularly the continuing tension in Southeast Asia, the Middle East and Africa, as well as political and economic issues in Europe 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.

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 have increased in recent years. In 2009, we entered into a letter agreement with our then-largest stockholder, pursuant to which we agreed to take certain actions related to our corporate governance. While we believe we have satisfied in full our obligations under such letter agreement, there can be no assurance that such stockholder and/or any other stockholder will not pursue actions to effect changes in our management and strategic direction, including through the solicitation of proxies from our stockholders. If a proxy contest were to be pursued by any stockholder, it could result in substantial expense to us, consume significant attention of our management and Board of Directors, and disrupt our business.

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

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

- authorizing the Board of Directors to issue shares of preferred stock;
- limiting the persons who may call special meetings of stockholders;
- prohibiting stockholder actions by written consent;
- permitting the Board of Directors to increase the size of the Board and to fill vacancies;
- providing indemnification to our directors and officers;
- controlling the procedures for conduct and scheduling of Board and stockholder meetings;
- requiring a super-majority vote of our stockholders to amend our amended and restated by-laws and certain provisions of our amended and restated certificate of incorporation; and
- establishing advance notice requirements for nominations for election to the Board of Directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

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

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

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

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

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

From time to time, we are subject to claims and litigation regarding intellectual property rights or other claims, which could seriously harm our business and require us to incur significant costs. In the past, we have been named as a defendant in securities class action and derivative lawsuits. We are generally obliged, to the extent permitted by law, to indemnify our current and former directors and officers who are named as defendants in these lawsuits. Defending against litigation may require significant attention and resources of management. Regardless of the outcome, such litigation could result in significant legal expenses.

We may also be subject to employment claims in connection with employee terminations. In addition, companies in our industry whose employees accept positions with us may claim that we have engaged in unfair hiring practices. These claims may result in material litigation. We could incur substantial costs defending ourselves or our employees against those claims, regardless of their merits. In addition, defending ourselves from those types of claims could divert our management's attention from our operations. The cost of employment claims may also increase as a result of our increasing international expansion.

If our defenses in any of our pending litigation 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.

For additional information on our material ongoing litigation, please see Part I, Item 3 "Legal Proceedings" in our Annual Report on Form 10-K for the year ended December 31, 2011, filed with the SEC on February 24, 2012 and Part II, Item 1 "Legal Proceedings" in this Quarterly Report on Form 10-Q.

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

Competition in the telecommunications market is intense. This market has historically been dominated by large incumbent telecommunications equipment companies, such as Alcatel-Lucent, LM Ericsson Telephone Company, Huawei Technologies Co., Ltd., NEC Corp. and Nokia Corp., all of which are our direct competitors. We also face competition from other telecommunications and networking companies, including Acme Packet, Inc., Cisco Systems, Inc. and GENBAND Inc., that design competing products. Other competitors may also merge, intensifying competition. Additional competitors with significant financial resources may enter our markets and further intensify competition.

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

To compete effectively, we must deliver innovative products that:

- provide extremely high reliability and voice quality;
- deploy and scale easily and efficiently;
- interoperate with existing network designs and other vendors' equipment;
- provide effective network management;
- are accompanied by comprehensive customer support and professional services;
- provide a cost-effective and space efficient solution for service providers; and
- meet price competition from low cost equipment providers.

If we are unable to compete successfully against our current and future competitors, we could experience price reductions, order cancellations, loss of customers and revenues, and our operating results could be adversely affected.

If we do not anticipate and meet specific customer requirements or if our products do not interoperate with our customers' existing networks, we may not retain current customers or attract new customers.

To achieve market acceptance for our products, we must effectively anticipate, and adapt in a timely manner to, customer requirements and offer products and services that meet changing customer demands. Prospective customers may require product features and capabilities that our current products do not have. The introduction of new or enhanced products also requires that we carefully manage the transition from older products in order to minimize disruption in customer ordering patterns and ensure that adequate supplies of new products can be delivered to meet anticipated customer demand. If we fail to develop products and offer services that satisfy customer requirements or if we fail to effectively manage the transition from older products, our ability to create or increase demand for our products would be seriously harmed and we may lose current and prospective customers.

Many of our customers will require that our products be designed to interface with their existing networks, each of which may have different specifications. Issues caused by an unanticipated lack of interoperability may result in significant warranty, support and repair costs, divert the attention of our engineering personnel from our hardware and software development efforts and cause significant customer relations problems. If our products do not interoperate with those of our customers' networks, installations could be delayed or orders for our products could be cancelled, 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 telecommunications providers have substantial purchasing power and leverage in negotiating contractual arrangements with us. These customers may, among other things, require us to develop additional features, require penalties for failure to deliver such features, require us to partner with a certain reseller before purchasing our products and/or seek discounted product or service pricing. As we sell more products to this class of customer, we may be required to agree to terms and conditions that are less beneficial to us, which may affect the timing of revenue recognition, amount of deferred revenues or product and service margins and may adversely affect our financial position and cash flows in certain reporting periods.

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

The market for technology stocks has been, and will likely continue to be, volatile. The following factors could cause the market price of our common stock to fluctuate significantly:

- addition or loss of any major customer;
- consolidation and competition in the telecommunications industry;
- changes in the financial condition or anticipated capital expenditure purchases of any existing or potential major customer;
- economic conditions for the telecommunications, networking and related industries;
- quarterly variations in our bookings, revenues and operating results;
- changes in financial estimates by securities analysts;
- speculation in the press or investment community;
- announcements by us or our competitors of significant contracts, new products or acquisitions, distribution partnerships, joint ventures or capital commitments;
- activism by any single large stockholder or combination of stockholders;
- sales of common stock or other securities by us or by our stockholders in the future;
- securities and other litigation;
- announcement of a stock split, reverse stock split, stock dividend or similar event; and/or
- emergence or adoption of new technologies or industry standards.

Our ability to compete and our business could be jeopardized if we are unable to protect our intellectual property or become subject to intellectual property rights claims, which could require us to incur significant cost; additionally, in some jurisdictions, our rights may not be as strong as we currently enjoy in the United States.

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

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

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

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

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 revenue approximated $103 million, or approximately 40% of revenue, in fiscal 2011, $80 million, or approximately 32% of revenue, in fiscal 2010 and $69 million, or approximately 30% of revenue, in fiscal 2009. This expansion has and will continue to require significant management attention and financial resources to successfully develop direct and indirect international sales and support channels. In addition, our international operations are subject to other inherent risks, including:

- reliance on channel partners;
- greater difficulty collecting accounts receivable and longer collection cycles;
- difficulties and costs of staffing and managing international operations;
- impacts of differing technical standards outside the United States;
- compliance with international trade, customs and export control regulations;
- reduced protection for intellectual property rights in some countries;
- foreign government regulations limiting or prohibiting potential sales or increasing the cost of doing business in such markets, including reversals or delays in the opening of foreign markets to new competitors or the introduction of new technologies;
- challenging pricing environments in highly competitive new markets;

- foreign currency exchange controls, restrictions on repatriation of cash and changes in currency exchange rates;
- potentially adverse tax consequences; and
- political, social and economic instability, including as a result of the current global economic downturn, health pandemics or epidemics or acts of war or terrorism.

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 four 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 change any of our manufacturers, qualifying a new contract manufacturer and commencing commercial scale production are expensive and time-consuming activities and could affect our business.

We rely on four contract manufacturers to manufacture our products according to our specifications and to fulfill orders on a timely basis. Reliance on a third-party manufacturer involves a number of risks, including a lack of control over the manufacturing process, inventory management and the potential absence or unavailability of adequate capacity. We do not have the internal manufacturing capabilities to meet our customers' demands. Any difficulties or failures to perform by our contract manufacturers could cause delays in customer product shipments or otherwise negatively affect our results of operations. In the event we elect to change our manufacturer, qualifying a new contract manufacturer and commencing commercial scale production 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. Depending upon the component, there may or may not be alternative sources of substitutes. We purchase these components on a purchase order basis. If we overestimate our component and finished goods requirements, we could have excess inventory, which would increase our costs. If we underestimate our requirements, we may not have an adequate supply, which could interrupt manufacturing of our products and result in delays in shipments and revenues. Additionally, if any of our contract manufacturers underestimates our requirements, they may not have an adequate supply, which could interrupt manufacturing of our products and result in delays in shipments. If any of our sole or limited source suppliers experiences capacity constraints, work stoppages or other reductions or disruptions in output, they may not be able to meet, or may choose not to meet, our delivery schedules. Additionally, 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 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 excesses or inadequate inventory that could negatively affect our expenses, revenue and earnings.

The market for some of our products depends on the availability and demand for other vendors' products.

Some of our products, particularly those addressing the unified communications market, are designed to function with other vendors' products. In these cases, demand for our products is dependent upon the availability, demand for, and sales of the other vendors' products, as well as the degree to which our products successfully interoperate with the other vendors' products and add value to the solution being provided to the customer. If the other vendors change the design of their products, delay the issuance of new releases, fail to adequately market their products, or are otherwise unsuccessful in building a market for their products, the demand for our products will be adversely affected.

If we fail to hire and retain needed personnel, the implementation of our business plan could slow or our future growth could be jeopardized.

Our business depends upon highly skilled technical, managerial, engineering, sales, marketing and customer support personnel. Competition for these personnel is intense, especially as the economy recovers. 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 our key employees based in the European Union, none of our officers or key employees is bound by an employment agreement for any specific term. The loss of the services of any of our officers or key employees could delay the development and introduction of, and negatively impact our ability to sell, our products and achieve our business objectives.

We had two executive departures in fiscal 2012: the departures of our Senior Vice President of Engineering and Chief Technology Officer in August 2012 and our Vice President of Human Resources in September 2012. We had three executive departures in fiscal 2011: the departure of our Chief Financial Officer and our Vice President of Product Operations, both in August 2011, and the departures of our Vice President of Engineering and Chief Architect in April 2011. While we have since hired replacements, there is always a risk of uncertainty and instability relating to our ability to find highly qualified successors for certain executive positions and to transition the duties and responsibilities of any departing key executive in an orderly manner.

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

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

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

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

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

Because our 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 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 support the continued growth of our business, our support organization will need to provide service and support at a high level throughout the world. If we are unable to provide the expected level of support and service to our customers, we could experience:

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

A portion of our revenue is generated from government sales, which is a new line of business for us due to our recent acquisition of NET. Disruptions to, or our failure to effectively develop, manage and maintain our government customer relationships could adversely affect our ability to generate revenue from the sales of certain of our products. Further, such government sales are subject to potential delays and cutbacks, require specific development efforts, and impose significant compliance obligations.

A portion of our total revenue from product sales comes from contracts with governmental agencies. Most of these contracts do not include long-term purchase commitments. Government sales is a new line of business for us due to our acquisition of NET, and disruptions to, or our failure to effectively develop, manage and maintain our government customer relationships could adversely affect our ability to generate revenue from the sales of our products.

A majority of NET's historical government sales have involved the Promina product, for which sales have declined substantially in recent periods. While governmental agencies have purchased and are evaluating some of our new products for broader deployment, this new line of business may not develop quickly or be sufficient to offset future declines in sales of the Promina product. Spending by government customers fluctuates based on budget allocations and the timely passage of the annual federal budget. An impasse in federal government budget decisions could lead to substantial delays or reductions in federal spending. During 2011, the U.S. federal government was unable to reach agreement on budget reduction measures required by the Budget Control Act of 2011 (the "Budget Act"). Unless Congress and the Administration take further action, the Budget Act will trigger automatic reductions in both defense and discretionary spending in January 2013. The resulting automatic across-the-board budget cuts in sequestration would likely cause a substantial reduction in revenues from our federal government customers.

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

A substantial portion of the revenue generated from our government customers is based on our contract with the General Services Administration ("GSA"). This contract imposes significant compliance and reporting obligations on us. The contract also establishes a fixed price under which government customers may purchase our products and provides for automatic mandatory price reductions upon certain events. In addition, the GSA can impose financial penalties for non-compliance.

Consolidation in the telecommunications industry could harm our business.

The telecommunications industry has experienced consolidation 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 weakened markets, which could result in material losses.

Due to our reliance on significant customer contracts, 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 uncollectible accounts receivable and our loss of significant customers and anticipated service revenue.

Most of our sales are on an open credit basis, with typical payment terms of 30 to 45 days. We monitor individual customer payment capability in granting such open credit arrangements, seek to limit such open credit to amounts we believe our customers can pay and maintain reserves we believe are adequate to cover exposure for doubtful accounts. However, there can be no assurance that our open credit customers will pay the amounts they owe to us or that the reserves we maintain will be adequate to cover such credit exposure. Our customers' failure to pay and/or our failure to maintain sufficient reserves could have a material adverse effect on our consolidated financial statements. Additionally, in the event that turmoil in the credit markets makes it more difficult for some customers to obtain financing, those customers' ability to pay could be adversely impacted, which in turn could have a material adverse impact on our business and consolidated financial statements.

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

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

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

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

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

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

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

We rely upon the security of our information systems and, in certain circumstances, those of our third-party providers, such as vendors, consultants and contract manufacturers, to protect our proprietary information and information of our customers. Despite our security procedures and those of our third-party providers, our information systems and those of our third-party service providers may be vulnerable to threats such as computer hacking, cyber-terrorism or other unauthorized attempts by third parties to access, modify or delete our or our customers' proprietary information. Information technology system failures, including a breach of our or our third-party providers' data security measures, or the theft or loss of laptops, other mobile devices or electronic records used to back up our systems or our third-party providers' systems, could result in an unintentional disclosure of customer, employee or our information or otherwise disrupt our ability to function in the normal course of business by potentially causing, among other things, delays in the fulfillment or cancellation of customer orders or disruptions in the manufacture or shipment of products or delivery of services, any of which could have a material adverse effect on our operating results. Such consequences could be exacerbated if we or our third party providers are unable to adequately recover critical systems following a systems failure.

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

Any system of controls, however well-designed and operated, is based in part on certain assumptions and can provide only reasonable, and not absolute, assurances that the objectives of the system are met. 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, Accounting Standards Updates 2009-13 and 2009-14 became effective for us in fiscal 2011, and their adoption had a material impact on our revenue in fiscal 2011. In addition, the International Accounting Standards Board and Financial Accounting Standards Board joint project on lease accounting is expected to be finalized in 2012 or 2013 and a new revenue recognition standard is expected to be finalized in 2012. Both new standards, if ratified, could be effective for companies as early as 2015. We have not yet assessed the impact of adopting these potential new standards.

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

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

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

Under generally accepted accounting principles, we review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or intangible assets may not be recoverable include significant underperformance relative to plan or long-term projections, strategic changes in business strategy, significant negative industry or economic trends, significant change in circumstances relative to a large customer, significant decline in our stock price for a sustained period and decline in our market capitalization to below net book value.

Failure by our strategic partners or by us in integrating products provided by our strategic partners could harm our business.

Our solutions include the integration of products supplied by strategic partners, who offer complementary products and services. We rely on these strategic partners in the timely and successful deployment of our solutions to our customers. If the products provided by these partners have defects or do not operate as expected, if the services provided by these partners are not completed in a timely manner, or if we do not effectively integrate and support products supplied by these strategic partners, then we may have difficulty with the deployment of our solutions that may result in:

- loss of, or delay in, revenues;
- increased service, support and warranty costs and a diversion of development resources; and
- network performance penalties.

In addition to cooperating with our strategic partners on specific customer projects, we also may compete in some areas with these same partners. If these strategic partners fail to perform or choose not to cooperate with us on certain projects, in addition to the effects described above, we could experience:

- loss of customers and market share; and
- failure to attract new customers or achieve market acceptance for our products.

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 as a significant component of our employee compensation program in order to align employees' interests with the interests of our stockholders, encourage employee retention, and provide competitive compensation packages. In 2007, our stockholders approved a stock incentive plan, which includes a limited amount of shares to be granted under such plan. Additionally, in connection with the acquisition of NET, we assumed NET's 2008 Equity Incentive Plan, which provides for the award of stock options, restricted stock, performance-based awards and stock appreciation rights to Sonus employees who were previously NET employees and Sonus employees hired after the NET Acquisition Date. When the number of shares available to us under our stock incentive plan no longer is sufficient, it is not certain that our stockholders will approve an increase in the number of shares that we are authorized to issue under such plans. 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.

Our use and reliance upon development resources in India may expose us to unanticipated costs and/or liabilities.

We have a significant development center in Bangalore, India and, in recent years, have increased headcount and development activity at this facility. The employees at this facility consist principally of research and development personnel. There is no assurance that our reliance upon development resources in India will enable us to achieve meaningful cost reductions or greater resource efficiency. Further, our development efforts and other operations in India involve significant risks, including:

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

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

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.

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

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

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

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

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

With the acquisition of NET in August 2012, we acquired a subsidiary that may have exported or re-exported certain of its products in violation of U.S. export laws. NET learned of these potential violations in its fiscal year ended March 25, 2011. Consequently, NET launched an internal investigation of its export-related activities, and reported the results of the investigation to the U.S. government. As of June 27, 2012, the U.S. government, through the Bureau of Information Security and Office of Foreign Assets Control has closed its investigation with no penalty.

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

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

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We do not have any currently effective authorization to repurchase shares of our common stock. However, upon vesting of restricted stock awards, employees are permitted to return to us a portion of the newly-vested shares to satisfy the tax withholding obligations that arise in connection with such vesting. The following table summarizes repurchases of our common stock during the third quarter of fiscal 2012, which represent shares returned to satisfy tax withholding obligations:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs
June 30, 2012 through July 27, 2012	1,388	$ 1.85	—	—
July 28, 2012 through August 24, 2012	11,014	$ 1.74	—	—
August 25, 2012 through September 28, 2012	7,095	$ 1.93	—	—
Total	19,497	$ 1.82	—	—

Item 6. Exhibits

Exhibit Number	Description
10.1+	Amendment to Employment Agreement between Sonus Networks, Inc. and Raymond P. Dolan, accepted August 7, 2012 (incorporated by reference to the registrant's Current Report on Form 8-K, filed August 8, 2012 with the SEC)
10.2+	2008 Equity Incentive Plan (incorporated by reference to Exhibit 99.1 to the registrant's Registration Statement on Form S-8, filed August 27, 2012 with the SEC).
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of 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

* Filed herewith

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 17 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

\+ Management contract or compensatory plan or arrangement

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.

Dated: November 7, 2012	SONUS NETWORKS, INC.
	By: /s/ MAURICE CASTONGUAY
	Maurice Castonguay *Senior Vice President and Chief Financial Officer* *(Principal Financial Officer)*
Dated: November 7, 2012	SONUS NETWORKS, INC.
	By: /s/ ELMER LAI
	Elmer Lai *Vice President, Finance, Corporate Controller* *and Chief Accounting Officer* *(Principal Accounting Officer)*

EXHIBIT INDEX

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\+ Management contract or compensatory plan or arrangement

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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: November 7, 2012

/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, Maurice Castonguay, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 7, 2012

/s/ MAURICE CASTONGUAY

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

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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 28, 2012 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: November 7, 2012

/s/ RAYMOND P. DOLAN

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

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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 28, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Maurice Castonguay, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2012

/s/ MAURICE CASTONGUAY

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