

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

**FORM 10-Q**

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended March 31, 2021
- 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 001-38267

**RIBBON COMMUNICATIONS INC.**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**82-1669692**  
(I.R.S. Employer Identification No.)

**6500 Chase Oaks Boulevard, Suite 100, Plano, Texas, 75023**

(Address of principal executive offices) (Zip code)

**(978) 614-8100**

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.0001	RBBN	The Nasdaq Global Select Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>
Smaller reporting company	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>		

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

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

As of April 23, 2021, there were 147,367,469 shares of the registrant's common stock, \$0.0001 par value per share, outstanding.

**RIBBON COMMUNICATIONS INC.**  
**FORM 10-Q**  
**QUARTERLY PERIOD ENDED MARCH 31, 2021**  
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### Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, which are subject to a number of risks and uncertainties. All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q, including statements regarding our future expenses, results of operations and financial position, integration activities, expected impacts of the ongoing COVID-19 pandemic, beliefs about our business strategy, expected benefits from our acquisition of ECI Telecom Group Ltd. ("ECI) and the sale of our Kandy Communications business, plans and objectives of management for future operations, plans for future cost reductions, if any, restructuring activities, and plans for future product offerings, development and manufacturing are forward-looking statements. Without limiting the foregoing, the words "anticipates", "believes", "could", "estimates", "expects", "intends", "may", "plans", "seeks" and other similar language, whether in the negative or affirmative, are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are unknown and/or difficult to predict and that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. Such risks and uncertainties include, but are not limited to, risks related to the ongoing COVID-19 pandemic on the global economy and financial markets as well as on the Company, our customers and suppliers, which may impact our sales, gross margin, customer demand and our ability to supply our products to our customers; failure to realize anticipated benefits of our acquisition of ECI; failure to achieve the expected benefits from the sale of our Kandy Communications business; supply chain disruptions resulting from component availability and/or geopolitical instabilities and disputes; unpredictable fluctuations in quarterly revenue and operating results; risks related to cybersecurity and data intrusion; failure to compete successfully against telecommunications equipment and networking companies; failure to grow our customer base or generate recurring business from our existing customers; credit risks; the timing of customer purchasing decisions and our recognition of revenues; economic conditions; the impact of restructuring and cost-containment activities; litigation; market acceptance of our products and services; rapid technological and market change; our ability to protect our intellectual property rights and obtain necessary licenses; our ability to maintain partner, reseller, distribution and vendor support and supply relationships; the potential for defects in our products; risks related to the terms of our credit agreement; higher risks in international operations and markets; increases in tariffs, trade restrictions or taxes on our products; currency fluctuations; and/or failure or circumvention of our controls and procedures. We therefore caution you against relying on any of these forward-looking statements.

Additional important factors that could cause actual results to differ materially from those in these forward-looking statements are also discussed in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Quarterly Report on Form 10-Q and Part I, Item 1A and Part II, Item 7A, "Risk Factors" and "Quantitative and Qualitative Disclosures About Market Risk," respectively, of our Annual Report on Form 10-K for the year ended December 31, 2020. Any forward-looking statement made by us in this Quarterly Report on Form 10-Q speaks only as of the date on which this Quarterly Report on Form 10-Q was first filed. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise.

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

**RIBBON COMMUNICATIONS INC.**  
**Condensed Consolidated Balance Sheets**  
(in thousands, except share and per share data)  
(unaudited)

	March 31, 2021	December 31, 2020
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 106,228	\$ 128,428
Restricted cash	2,659	7,269
Accounts receivable, net	209,163	237,738
Inventory	44,854	45,750
Other current assets	34,018	28,461
Total current assets	396,922	447,646
Property and equipment, net	49,237	48,888
Intangible assets, net	401,533	417,356
Goodwill	416,892	416,892
Investments	92,742	115,183
Deferred income taxes	10,832	10,651
Operating lease right-of-use assets	62,579	69,757
Other assets	22,047	20,892
	<u>\$ 1,452,784</u>	<u>\$ 1,547,265</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Current portion of term debt	\$ 20,058	\$ 15,531
Accounts payable	58,549	63,387
Accrued expenses and other	98,185	134,865
Operating lease liabilities	17,627	17,023
Deferred revenue	102,103	96,824
Total current liabilities	296,522	327,630
Long-term debt, net of current	363,888	369,035
Operating lease liabilities, net of current	68,100	72,614
Deferred revenue, net of current	23,054	26,010
Deferred income taxes	17,303	16,842
Other long-term liabilities	41,184	48,281
Total liabilities	810,051	860,412
Commitments and contingencies (Note 19)		
Stockholders' equity:		
Preferred stock, \$0.01 par value per share; 10,000,000 shares authorized, none issued and outstanding	—	—
Common stock, \$0.0001 par value per share; 240,000,000 shares authorized; 147,358,590 shares issued and outstanding at March 31, 2021; 145,425,248 shares issued and outstanding at December 31, 2020	15	15
Additional paid-in capital	1,864,107	1,870,256
Accumulated deficit	(1,223,163)	(1,178,476)
Accumulated other comprehensive income (loss)	1,774	(4,942)
Total stockholders' equity	642,733	686,853
	<u>\$ 1,452,784</u>	<u>\$ 1,547,265</u>

See notes to the unaudited condensed consolidated financial statements.

**RIBBON COMMUNICATIONS INC.**  
**Condensed Consolidated Statements of Operations**  
(in thousands, except per share data)  
(unaudited)

	Three months ended	
	March 31, 2021	March 31, 2020
Revenue:		
Product	\$ 97,889	\$ 75,899
Service	94,883	82,083
Total revenue	<u>192,772</u>	<u>157,982</u>
Cost of revenue:		
Product	44,445	35,979
Service	37,780	31,479
Total cost of revenue	<u>82,225</u>	<u>67,458</u>
Gross profit	<u>110,547</u>	<u>90,524</u>
Operating expenses:		
Research and development	47,410	42,295
Sales and marketing	37,218	30,971
General and administrative	15,553	17,205
Amortization of acquired intangible assets	15,823	14,334
Acquisition-, disposal- and integration-related	1,197	12,384
Restructuring and related	5,950	2,075
Total operating expenses	<u>123,151</u>	<u>119,264</u>
Loss from operations	(12,604)	(28,740)
Interest expense, net	(5,819)	(3,395)
Other expense, net	(25,448)	(844)
Loss before income taxes	<u>(43,871)</u>	<u>(32,979)</u>
Income tax provision	(816)	(191)
Net loss	<u>\$ (44,687)</u>	<u>\$ (33,170)</u>
Loss per share:		
Basic	\$ (0.31)	\$ (0.27)
Diluted	\$ (0.31)	\$ (0.27)
Weighted average shares used to compute loss per share:		
Basic	145,936	120,992
Diluted	145,936	120,992

See notes to the unaudited condensed consolidated financial statements.

**RIBBON COMMUNICATIONS INC.**  
**Condensed Consolidated Statements of Comprehensive Loss**  
**(in thousands)**  
**(unaudited)**

	Three months ended	
	March 31, 2021	March 31, 2020
Net loss	\$ (44,687)	\$ (33,170)
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) on interest rate swap	6,669	(9,527)
Foreign currency translation adjustments	47	777
Other comprehensive income (loss), net of tax	6,716	(8,750)
Comprehensive loss, net of tax	<u>\$ (37,971)</u>	<u>\$ (41,920)</u>

See notes to the unaudited condensed consolidated financial statements.

**RIBBON COMMUNICATIONS INC.**  
**Condensed Consolidated Statements of Stockholders' Equity**  
(in thousands, except shares)  
(unaudited)

**Three months ended March 31, 2021**

	Common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total stockholders' equity
	Shares	Amount				
Balance at January 1, 2021	145,425,248	\$ 15	\$ 1,870,256	\$ (1,178,476)	\$ (4,942)	\$ 686,853
Exercise of stock options	13,389		24			24
Vesting of restricted stock awards and units	1,662,628					—
Vesting of performance-based stock units	1,525,681					—
Shares of restricted stock returned to the Company under net share settlements to satisfy tax withholding obligations	(1,268,356)		(11,233)			(11,233)
Stock-based compensation expense			5,060			5,060
Other comprehensive loss					6,716	6,716
Net loss				(44,687)		(44,687)
Balance at March 31, 2021	<u>147,358,590</u>	<u>\$ 15</u>	<u>\$ 1,864,107</u>	<u>\$ (1,223,163)</u>	<u>\$ 1,774</u>	<u>\$ 642,733</u>

**RIBBON COMMUNICATIONS INC.**  
**Condensed Consolidated Statements of Stockholders' Equity (continued)**  
(in thousands, except shares)  
(unaudited)

**Three months ended March 31, 2020**

	Common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total stockholders' equity
	Shares	Amount				
Balance at January 1, 2020	110,471,995	\$ 11	\$ 1,747,784	\$ (1,267,067)	\$ 2,527	\$ 483,255
Exercise of stock options	3,014		5			5
Vesting of restricted stock awards and units	1,016,982					—
Vesting of performance-based stock units	315,866					—
Shares of restricted stock returned to the Company under net share settlements to satisfy tax withholding obligations	(273,104)		(792)			(792)
Shares issued as consideration in connection with the acquisition of ECI Telecom Group Ltd.	32,500,000	3	108,547			108,550
Shares issued as consideration in connection with the acquisition of Anova Data, Inc.	316,551		1,630			1,630
Stock-based compensation expense			2,976			2,976
Other comprehensive loss					(8,750)	(8,750)
Net loss				(33,170)		(33,170)
Balance at March 31, 2020	<u>144,351,304</u>	<u>\$ 14</u>	<u>\$ 1,860,150</u>	<u>\$ (1,300,237)</u>	<u>\$ (6,223)</u>	<u>\$ 553,704</u>

See notes to the unaudited condensed consolidated financial statements.



**RIBBON COMMUNICATIONS INC.**  
**Condensed Consolidated Statements of Cash Flows**  
(in thousands)  
(unaudited)

	Three months ended	
	March 31, 2021	March 31, 2020
<b>Cash flows from operating activities:</b>		
Net loss	\$ (44,687)	\$ (33,170)
<b>Adjustments to reconcile net loss to cash flows (used in) provided by operating activities:</b>		
Depreciation and amortization of property and equipment	4,226	3,474
Amortization of intangible assets	15,823	14,334
Amortization of debt issuance costs	3,141	1,854
Stock-based compensation	5,060	2,976
Deferred income taxes	293	(99)
Decrease in fair value of investments	22,441	—
Reduction in deferred purchase consideration	—	(69)
Foreign currency exchange losses	1,716	854
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	28,083	46,156
Inventory	(330)	4,468
Other operating assets	979	(478)
Accounts payable	(3,800)	(27,029)
Accrued expenses and other long-term liabilities	(41,480)	22,310
Deferred revenue	2,323	4,351
Net cash (used in) provided by operating activities	<u>(6,212)</u>	<u>39,932</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(5,357)	(6,017)
Business acquisitions, net of cash acquired	—	(346,852)
Proceeds from the sale of fixed assets	—	43,500
Net cash used in investing activities	<u>(5,357)</u>	<u>(309,369)</u>
<b>Cash flows from financing activities:</b>		
Principal payments on revolving line of credit	—	(8,000)
Proceeds from issuance of term debt	74,625	403,500
Principal payments of term debt	(77,132)	(48,750)
Principal payments of finance leases	(272)	(338)
Payment of debt issuance costs	(789)	(10,573)
Proceeds from the exercise of stock options	24	5
Payment of tax withholding obligations related to net share settlements of restricted stock awards	(11,233)	(792)
Net cash (used in) provided by financing activities	<u>(14,777)</u>	<u>335,052</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(464)	(190)
Net (decrease) increase in cash, cash equivalents and restricted cash	(26,810)	65,425
Cash and cash equivalents, beginning of year	135,697	44,643
Cash, cash equivalents and restricted cash, end of period	<u>\$ 108,887</u>	<u>\$ 110,068</u>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 4,317	\$ 688
Income taxes paid	\$ 7,656	\$ 1,259
Income tax refunds received	\$ 766	\$ —
<b>Supplemental disclosure of non-cash investing activities:</b>		
Capital expenditures incurred, but not yet paid	\$ 3,059	\$ 6,300
Acquisition purchase consideration - assumed equity awards	\$ —	\$ 110,180
<b>Supplemental disclosure of non-cash financing activities:</b>		
Total fair value of restricted stock awards, restricted stock units and performance-based stock units on date vested	\$ 28,182	\$ 3,182

See notes to the unaudited condensed consolidated financial statements.

**RIBBON COMMUNICATIONS INC.**  
**Notes to Condensed Consolidated Financial Statements**  
**(unaudited)**

**(1) BASIS OF PRESENTATION**

***Business***

Ribbon Communications Inc. ("Ribbon" or the "Company") is a leading global provider of communications technology to service providers and enterprises. The Company provides a broad range of software and high-performance hardware products, solutions and services that enable the secure delivery of data and voice communications for residential consumers and for small, medium, and large enterprises and industry verticals such as finance, education, government, utilities and transportation. Ribbon's mission is to create a recognized global technology leader providing cloud-centric solutions that enable the secure exchange of information, with unparalleled scale, performance and elasticity. The Company is headquartered in Plano, Texas, and has a global presence with research and development, or sales and support locations in over thirty-five countries around the world.

***Basis of Presentation***

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

On December 1, 2020 (the "Kandy Sale Date"), American Virtual Cloud Technologies, Inc. ("AVCT") completed the purchase of the Company's cloud-based enterprise service business (the "Kandy Communications Business") and accordingly, the revenue and expenses of the Kandy Communications Business are excluded from the Company's condensed consolidated financial statements for the three months ended March 31, 2021.

On March 3, 2020 (the "ECI Acquisition Date"), a subsidiary of the Company merged with ECI Telecom Group Ltd ("ECI") (the "ECI Acquisition"). The financial results of ECI are included in the Company's condensed consolidated financial statements for the period subsequent to the ECI Acquisition Date.

Interim results are not necessarily indicative of results for a full year or any future interim period. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2020 (the "Annual Report"), which was filed with the SEC on February 26, 2021.

***Operating Segments***

The Company's chief operating decision maker (the "CODM") is its President and Chief Executive Officer. Effective in the fourth quarter of 2020 and in connection with the ECI Acquisition, the CODM began to assess the Company's performance based on the performance of two separate organizations within Ribbon: the Cloud and Edge segment ("Cloud and Edge") and the IP Optical Networks segment ("IP Optical Networks"). Financial information for the IP Optical Networks segment included in the Company's financial results for the three months ended March 31, 2020 is for the period subsequent to the ECI Acquisition Date through March 31, 2020.

***Reclassifications***

In the fourth quarter of 2020, the Company reclassified amounts recorded for amortization of acquired intangible assets in prior presentations from Cost of revenue - product and Sales and marketing to a separate line included in operating expenses in the condensed consolidated statements of operations, as management believes this presentation enhances the comparability of the Company's financial statements with industry peers. These reclassifications also did not impact the condensed consolidated balance sheets or statements of cash flows for any historical periods. The Company did not reclassify depreciation of property and equipment related to production activities from cost of revenue to other accounts.

**RIBBON COMMUNICATIONS INC.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(unaudited)**

These reclassifications for the three months ended March 31, 2020 were as follows (in thousands):

	Three months ended March 31, 2020		
	Prior presentation	Amounts reclassified	Revised presentation
Product revenue	\$ 75,899	\$ —	\$ 75,899
Service revenue	82,083	—	82,083
<b>Total revenue</b>	<b>157,982</b>	<b>—</b>	<b>157,982</b>
Cost of revenue - product	44,933	(8,954)	35,979
Cost of revenue - service	31,479	—	31,479
<b>Total cost of revenue</b>	<b>76,412</b>	<b>(8,954)</b>	<b>67,458</b>
<b>Total gross profit</b>	<b>81,570</b>	<b>8,954</b>	<b>90,524</b>
Research and development	42,295	—	42,295
Sales and marketing	36,351	(5,380)	30,971
General and administrative	17,205	—	17,205
Amortization of acquired intangible assets	—	14,334	14,334
Acquisition-, disposal- and integration-related	12,384	—	12,384
Restructuring and related	2,075	—	2,075
<b>Total operating expenses</b>	<b>110,310</b>	<b>8,954</b>	<b>119,264</b>
<b>Operating loss</b>	<b>\$ (28,740)</b>	<b>\$ —</b>	<b>\$ (28,740)</b>

Certain reclassifications, not affecting previously reported net loss, have been made to the previously issued financial statements to conform to the current period presentation.

**Significant Accounting Policies**

The Company's significant accounting policies are disclosed in Note 2 to the Consolidated Financial Statements included in the Annual Report. There were no material changes to the significant accounting policies during the three months ended March 31, 2021.

**Principles of Consolidation**

The condensed consolidated financial statements include the accounts of Ribbon 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 Ribbon 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 revenue and expenses during the reporting periods. Significant estimates and judgments relied upon in preparing these condensed consolidated financial statements include accounting for business combinations, revenue recognition for multiple element arrangements, inventory valuations, assumptions used to determine the fair value of stock-based compensation, intangible asset and goodwill valuations, including impairments, legal contingencies and recoverability of Ribbon's net deferred tax assets and the related valuation allowances. Ribbon regularly assesses these estimates and records changes in estimates in the period in which they become known. Ribbon 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.

**RIBBON COMMUNICATIONS INC.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(unaudited)**

**Restricted Cash**

The Company classifies as restricted cash all cash pledged as collateral to secure long-term obligations and all cash whose use is otherwise limited by contractual provisions.

At March 31, 2021, the Company had \$2.7 million of restricted cash, representing restricted short-term bank deposits pledged to secure certain performance and financial bonds as security for the Company's obligations under tenders, contracts and to one of its main subcontractors.

At December 31, 2020, the Company had \$7.3 million of restricted cash, comprised of \$4.6 million restricted in connection with a tax payment on certain fixed assets formerly held by ECI that were sold in connection with the ECI Acquisition, and \$2.7 million of restricted short-term bank deposits pledged to secure certain performance and financial bonds as security for the Company's obligations under tenders, contracts and to one of its main subcontractors.

**Transfers of Financial Assets**

The Company maintains customer receivables factoring agreements with a number of financial institutions primarily for IP Optical Networks sales outside of the United States. Under the terms of these agreements, the Company may transfer receivables to the financial institutions, on a non-recourse basis, provided that the financial institutions approve the receivables in advance. The Company maintains credit insurance policies from major insurance providers or obtains letters of credit from the customers for a majority of its factored trade receivables. The Company accounts for the factoring of its financial assets as a sale of the assets and records the factoring fees, when incurred, as a component of interest expense in the condensed consolidated statements of operations, and the proceeds from the sales of receivables are included in cash from operating activities in the condensed consolidated statements of cash flows. During the three months ended March 31, 2021, the Company received \$31.1 million of cash from the sale of certain accounts receivable and recorded \$0.2 million of interest expense in connection with these transactions. During the three months ended March 31, 2020, the Company received \$15.1 million of cash from the sale of certain accounts receivable and recorded \$0.1 million of interest expense in connection with these transactions.

**Fair Value of Financial Instruments and Fair Value Hierarchy**

The carrying amounts of the Company's financial instruments approximate their fair values and include cash equivalents, accounts receivable, borrowings under a revolving credit facility, accounts payable and long-term debt.

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

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

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

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

**RIBBON COMMUNICATIONS INC.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(unaudited)**

**Recent Accounting Pronouncements**

The Financial Accounting Standards Board ("FASB") issued the following accounting pronouncement which became effective for the Company in 2021, and which did not have a material impact on its condensed consolidated financial statements:

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"), which modifies ASC 740 to simplify the accounting for income taxes. ASU 2019-12 addresses the accounting for hybrid tax regimes, tax basis step-up in goodwill obtained in a transaction that is not a business combination, separate financial statements of legal entities not subject to tax, intraperiod tax allocation exception to incremental approach, ownership changes in investments - changes from a subsidiary to an equity method investment, ownership changes in investments - changes from an equity method investment to a subsidiary, interim period accounting for enacted changes in tax law and year-to-date loss limitation in interim period tax accounting.

The FASB issued the following accounting pronouncement, which the Company does not believe will have a material impact on its condensed consolidated financial statements upon adoption:

In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848): Scope* ("ASU 2021-01"), which refines the scope of Accounting Standards Codification 848, *Reference Rate Reform* ("ASC 848") and clarifies some of its guidance as part of the FASB's monitoring of global reference rate reform activities. ASU 2021-01 permits entities to elect certain optional expedients and exceptions when accounting for derivative contracts and certain hedging relationships affected by changes in the interest rates used for discounting cash flows, for computing variation margin settlements, and for calculating price alignment interest in connection with reference rate reform activities under way in global financial markets (the "discounting transition"). ASU 2021-01 is effective for the Company prospectively in any period through December 31, 2022 that a modification is made to the terms of the derivatives affected by the discounting transition.

**(2) ACQUISITION OF ECI**

On the ECI Acquisition Date, Ribbon completed its previously announced merger transaction with ECI in accordance with the terms of the Agreement and Plan of Merger, dated as of November 14, 2019, by and among Ribbon, ECI, an indirect wholly-owned subsidiary of Ribbon ("Merger Sub"), Ribbon Communications Israel Ltd. and ECI Holding (Hungary) kft, pursuant to which Merger Sub merged with and into ECI, with ECI surviving such merger as a wholly-owned subsidiary of Ribbon. Prior to the ECI Acquisition Date, ECI was a privately-held global provider of end-to-end packet-optical transport and software-defined networking ("SDN") and network function virtualization ("NFV") solutions for service providers, enterprises and data center operators.

As consideration for the ECI Acquisition, Ribbon issued the ECI shareholders and certain others 32.5 million shares of Ribbon common stock with a fair value of \$108.6 million (the "Stock Consideration") and paid \$322.5 million of cash (the "Cash Consideration"), comprised of \$183.3 million to repay ECI's outstanding debt, including both principal and interest, and \$139.2 million paid to ECI's selling shareholders. In addition, ECI shareholders received \$33.4 million from the sale of certain of ECI's real estate assets. Cash Consideration was financed through cash on hand and committed debt financing consisting of a new \$400 million term loan facility and new \$100 million revolving credit facility, which was undrawn at the ECI Acquisition Date.

The ECI Acquisition has been accounted for as a business combination and the financial results of ECI have been included in the Company's condensed consolidated financial statements for the periods subsequent to the ECI Acquisition. The Company's financial results for the three months ended March 31, 2020 include \$30.0 million of revenue and \$3.3 million of net loss attributable to ECI.

The Company finalized the valuation of acquired assets, identifiable intangible assets and certain assumed liabilities in the fourth quarter of 2020. A summary of the allocation of the purchase consideration for ECI is as follows (in thousands):

**RIBBON COMMUNICATIONS INC.**  
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**(unaudited)**

<b>Fair value of consideration transferred:</b>	
Cash consideration:	
Repayment of ECI outstanding debt obligations	\$ 183,266
Cash paid to selling shareholders	139,244
Payment to selling shareholders from sale of ECI real estate assets	33,400
Less cash and restricted cash acquired	(9,058)
Net cash consideration	<u>346,852</u>
Fair value of Ribbon stock issued	108,550
Fair value of total consideration	<u>\$ 455,402</u>
<b>Fair value of assets acquired and liabilities assumed:</b>	
Current assets, net of cash and restricted cash acquired	\$ 120,203
Property and equipment	54,913
Intangible assets:	
In-process research and development	34,000
Developed technology	111,900
Customer relationships	116,000
Trade names	3,000
Goodwill	191,996
Other noncurrent assets	37,528
Deferred revenue	(4,369)
Other current liabilities	(146,618)
Deferred revenue, net of current	(3,726)
Deferred tax liability	(13,308)
Other long-term liabilities	(46,117)
	<u>\$ 455,402</u>

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 in-process research and development, developed technology, customer relationships and trade name 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 customer attrition, technology obsolescence and revenue growth projections. The Company is amortizing the identifiable intangible assets arising from the ECI Acquisition in relation to the expected cash flows from the individual intangible assets over their respective useful lives, which have a weighted average life of 12.38 years (see Note 6). Goodwill results from assets that are not separately identifiable as part of the transaction and is not deductible for tax purposes.

*Pro Forma Results*

The following unaudited pro forma information presents the condensed combined results of operations of Ribbon and ECI for the three months ended March 31, 2020 as if the ECI Acquisition had been completed on January 1, 2019, with adjustments to give effect to pro forma events that are directly attributable to the ECI Acquisition. These pro forma adjustments include an increase in research and development expense related to the conformance of ECI's cost capitalization policy to Ribbon's, additional amortization expense for the acquired identifiable intangible assets, a decrease in historical ECI interest expense reflecting the extinguishment of certain of ECI's debt as a result of the ECI Acquisition, and an increase in interest expense reflecting the new debt entered into by the Company in connection with the ECI Acquisition. Pro forma adjustments also include the elimination of acquisition-, disposal- and integration-related expenses directly attributable to the acquisition from the three months ended March 31, 2020 and inclusion of such costs in the same prior year period.

The unaudited pro forma results do not reflect any operating efficiencies or potential cost savings that may result from the consolidation of the operations of Ribbon and ECI. 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

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would have been achieved had the ECI Acquisition occurred at January 1, 2019, nor are they intended to represent or be indicative of future results of operations (in thousands, except per share amounts):

Revenue	\$	183,189
Net loss	\$	(39,129)
Loss per share	\$	(0.25)

**Acquisition-, Disposal- and Integration-Related Expenses**

Acquisition-related expenses include those expenses related to acquisitions that would otherwise not have been incurred by the Company, including professional and services fees, such as legal, audit, consulting, paying agent and other fees. Disposal-related expenses are professional and services fees related to disposals of subsidiaries or portions of the business. Integration-related expenses represent incremental costs related to combining the Company and its business acquisitions, such as third-party consulting and other third-party services related to merging the previously separate companies' systems and processes.

The disposal-related expenses in the three months ended March 31, 2021 relate to the Kandy Sale (as defined below). The acquisition-related expenses in the three months ended March 31, 2020 primarily relate to the ECI Acquisition.

The Company's acquisition-, disposal- and integration-related expenses for the three months ended March 31, 2021 and 2020 were as follows (in thousands):

	Three months ended	
	March 31, 2021	March 31, 2020
Professional and services fees (acquisition-related)	\$ —	\$ 12,374
Professional and services fees (disposal-related)	241	—
Integration-related expenses	956	10
	<u>\$ 1,197</u>	<u>\$ 12,384</u>

**(3) SALE OF KANDY COMMUNICATIONS BUSINESS**

On August 5, 2020, the Company announced that it had entered into a definitive agreement (as amended, the "Kandy Purchase Agreement") with AVCT to sell the Kandy Communications Business. Under the Kandy Purchase Agreement, AVCT agreed to purchase the assets and assume certain liabilities associated with the Kandy Communications Business, as well as all of the outstanding interests in Kandy Communications LLC, a subsidiary of the Company (the "Kandy Sale").

On December 1, 2020, the Company completed the Kandy Sale. The assets acquired and liabilities assumed by AVCT in connection with the Kandy Sale were primarily comprised of accounts receivable, property and equipment, trade accounts payable and employee-related accruals. As sale consideration, AVCT paid Ribbon \$45.0 million, subject to certain adjustments, in the form of units of AVCT's securities (the "AVCT Units"), with each AVCT Unit consisting of: \$1,000 in principal amount of AVCT's Series A-1 convertible debentures (the "Debentures"); and (ii) one warrant to purchase 100 shares of AVCT common stock, \$0.0001 par value (the "Warrants"), as consideration for the Kandy Sale. The Company received 43,778 AVCT Units as sale consideration on the Kandy Sale Date.

The Debentures bear interest at a rate of 10% per annum, which will be added to the principal amount of the Debentures, except upon maturity, in which case accrued and unpaid interest is payable in cash. The entire principal of each Debenture, together with accrued and unpaid interest thereon, is due and payable on the earlier of the May 1, 2023 maturity date or the occurrence of a Change in Control as defined in the Kandy Purchase Agreement. Each Debenture is convertible, in whole or in part, at any time at the Company's option into that number of shares of AVCT common stock, calculated by dividing the principal amount being converted, together with all accrued and unpaid interest thereon, by the applicable conversion price, initially \$3.45. The Debentures are subject to mandatory redemption if the AVCT stock price is at or above \$6.00 per share for 40 trading days in any 60 consecutive trading day period, subject to the satisfaction of certain other conditions. The conversion

**RIBBON COMMUNICATIONS INC.**  
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price is subject to customary adjustments including, but not limited to, stock dividends, stock splits and reclassifications. At the Company's option, up to \$5.0 million of the Debentures may be redeemed by AVCT at par in the event AVCT raises at least \$50.0 million in its offering of AVCT Units. As of February 19, 2021, the stock price had traded above \$6.00 for 40 days within a 60 consecutive trading day period, and accordingly, the Debentures will be converted to shares of AVCT common stock upon the completion of customary regulatory filings by AVCT.

The Warrants are independent of the Debentures and entitle the Company to purchase 4,377,800 shares of AVCT common stock at an exercise price of \$0.01 per share. The Warrants expire on December 1, 2025, and were immediately exercisable on the Kandy Sale Date.

The Company had not redeemed any of the Debentures or exercised any of the Warrants as of March 31, 2021. The Company is also subject to a lock-up provision which limits the Company's ability to sell any shares of AVCT common stock underlying the Debentures and the Warrants prior to June 1, 2021, except in certain transactions.

The Company determined that the AVCT Units had a fair value of \$84.9 million at the Kandy Sale Date, comprised of the Debentures with a fair value of \$66.3 million and the Warrants with a fair value of \$18.6 million. The value of the net assets sold to AVCT totaled \$1.3 million, resulting in a gain on the sale of \$83.6 million.

The Company calculated the fair value of the Debentures using a Lattice-based valuation approach, which utilizes a binomial tree to model the different paths the price of AVCT's common stock might take over the Debentures' life by using assumptions regarding the stock price volatility and risk-free interest rate. These results are then used to calculate the fair value of the Debentures at each measurement date. The Company uses the Black-Scholes valuation model for estimating the fair value of the Warrants at each measurement date. The fair value of the Warrants is affected by AVCT's stock price as well as valuation assumptions, including the volatility of AVCT's stock price, expected term of the option, risk-free interest rate and expected dividends. Both the Lattice and Black-Scholes valuation models are based on available market data, giving consideration to all of the rights and obligations of each instrument and precluding the use of "blockage" discounts or premiums in determining the fair value of a large block of financial instruments.

The Company is calculating the fair value of the Debentures and Warrants at each quarter-end and recording any adjustments to the fair values in Other expense, net. At March 31, 2021 and December 31, 2020, the aggregate fair value of the Debentures and Warrants was \$92.7 million and \$115.2 million, respectively. The Company recorded the loss of \$23.9 million arising from the decrease in the fair value of the Debentures and Warrants from January 1, 2021 to March 31, 2021 in Other expense, net, in its condensed consolidated statement of operations for the three months ended March 31, 2021. The loss was partially offset by \$1.5 million of interest which was added to the principal of the Debentures. The interest is included in Interest (expense) income, net, in the condensed consolidated statement of operations for the three months ended March 31, 2021. The fair values of the Debentures and Warrants are reported as Investments in the Company's condensed consolidated balance sheets at March 31, 2021 and December 31, 2020 and are classified as Level 2 fair value measurements within the fair value hierarchy (see Note 1).

#### **(4) EARNINGS (LOSS) PER SHARE**

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares outstanding during the period. For periods in which the Company reports net income, diluted net earnings per share is determined by using the weighted average number of common and dilutive common equivalent shares outstanding during the period unless the effect is antidilutive.

The calculations of shares used to compute earnings (loss) per share were as follows (in thousands):



**RIBBON COMMUNICATIONS INC.**  
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	Three months ended	
	March 31, 2021	March 31, 2020
Weighted average shares outstanding - basic	145,936	120,992
Potential dilutive common shares	—	—
Weighted average shares outstanding - diluted	145,936	120,992

Options to purchase the Company's common stock and unvested shares of restricted and performance-based stock and stock units aggregating 12.8 million shares and 11.7 million shares have not been included in the computation of diluted loss per share for the three months ended March 31, 2021 and 2020, respectively, because their effect would have been antidilutive.

**(5) INVENTORY**

Inventory at March 31, 2021 and December 31, 2020 consisted of the following (in thousands):

	March 31, 2021	December 31, 2020
On-hand final assemblies and finished goods inventories	\$ 48,529	\$ 46,921
Deferred cost of goods sold	1,609	1,165
	50,138	48,086
Less noncurrent portion (included in other assets)	(5,284)	(2,336)
Current portion	\$ 44,854	\$ 45,750

**(6) INTANGIBLE ASSETS AND GOODWILL**

The Company's intangible assets at March 31, 2021 and December 31, 2020 consisted of the following (in thousands):

March 31, 2021	Weighted average amortization period (years)	Cost	Accumulated amortization	Net carrying value
In-process research and development	*	\$ 34,000	\$ —	\$ 34,000
Developed technology	7.93	306,380	153,111	153,269
Customer relationships	11.86	268,140	56,049	212,091
Trade names	3.88	5,000	2,827	2,173
Internal use software	3.00	730	730	—
	9.17	\$ 614,250	\$ 212,717	\$ 401,533

  

December 31, 2020	Weighted average amortization period (years)	Cost	Accumulated amortization	Net carrying value
In-process research and development	*	\$ 34,000	\$ —	\$ 34,000
Developed technology	7.93	306,380	143,050	163,330
Customer relationships	11.86	268,140	50,627	217,513
Trade names	3.88	5,000	2,487	2,513
Internal use software	3.00	730	730	—
	9.17	\$ 614,250	\$ 196,894	\$ 417,356

\* An in-process research and development intangible asset has an indefinite life until the product is generally available, at which time such asset is typically reclassified to developed technology.

**RIBBON COMMUNICATIONS INC.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
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Estimated future amortization expense for the Company's intangible assets at March 31, 2021 was as follows (in thousands):

<b>Years ending December 31,</b>		\$	
Remainder of 2021			50,803
2022			60,104
2023			52,256
2024			44,048
2025			37,027
2026			33,200
Thereafter			124,095
		<u>\$</u>	<u>401,533</u>

There were no changes to the carrying value of the Company's goodwill in the three months ended March 31, 2021. The changes in the carrying value of the Company's goodwill in the three months ended March 31, 2020 were as follows (in thousands):

	<u>Cloud and Edge</u>	<u>IP Optical Networks</u>	<u>Total</u>
Balance at January 1, 2020*	\$ 224,896	\$ —	\$ 224,896
Acquisition of ECI	—	189,493	189,493
Balance at March 31, 2020	<u>\$ 224,896</u>	<u>\$ 189,493</u>	<u>\$ 414,389</u>

(1) Balance is presented net of accumulated impairment losses of \$167.4 million for the Cloud and Edge segment.

The components of goodwill at March 31, 2021 and 2020 were as follows (in thousands):

	<u>Cloud and Edge</u>	<u>IP Optical Networks</u>	<u>Total</u>
Balance at March 31, 2021			
Goodwill	\$ 392,302	\$ 191,996	\$ 584,298
Accumulated impairment losses	(167,406)	—	(167,406)
	<u>\$ 224,896</u>	<u>\$ 191,996</u>	<u>\$ 416,892</u>
Balance at March 31, 2020			
Goodwill	\$ 392,302	\$ 189,493	\$ 581,795
Accumulated impairment losses	(167,406)	—	(167,406)
	<u>\$ 224,896</u>	<u>\$ 189,493</u>	<u>\$ 414,389</u>

**(7) ACCRUED EXPENSES AND OTHER**

Accrued expenses at March 31, 2021 and December 31, 2020 consisted of the following (in thousands):

	<u>March 31, 2021</u>	<u>December 31, 2020</u>
Employee compensation and related costs	\$ 41,128	\$ 66,039
Other	57,057	68,826
	<u>\$ 98,185</u>	<u>\$ 134,865</u>

**RIBBON COMMUNICATIONS INC.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
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**(8) WARRANTY ACCRUALS**

The changes in the Company's accrual balance in the three months ended March 31, 2021 were as follows (in thousands):

Balance at January 1, 2021	\$	14,855
Current period provisions		478
Settlements		(1,456)
Balance at March 31, 2021	\$	<u>13,877</u>

Of the amounts recorded at March 31, 2021 and December 31, 2020, \$5.7 million and \$6.5 million, respectively, were current and included as components of Accrued expenses and other, and \$8.2 million and \$8.4 million, respectively, were long-term and included as components of Other long-term liabilities in the Company's condensed consolidated balance sheets.

**(9) RESTRUCTURING AND FACILITIES CONSOLIDATION INITIATIVES**

The Company recorded restructuring and related expense aggregating \$6.0 million and \$2.1 million in the three months ended March 31, 2021 and 2020, respectively. Restructuring and related expense includes both restructuring expense for severance and related costs and facilities-related costs, primarily comprised estimated future variable lease costs for vacated properties with no intent or ability of sublease, and accelerated rent amortization expense.

For restructuring events that involve lease assets and liabilities, the Company applies lease reassessment and modification guidance and evaluates the right-of-use assets for potential impairment. If the Company plans to exit all or distinct portions of a facility and does not have the ability or intent to sublease, the Company will accelerate the amortization of each of those lease components through the vacate date. The accelerated amortization is recorded as a component of Restructuring and related expense in the Company's condensed consolidated statements of operations. Related variable lease expenses will continue to be expensed as incurred through the vacate date, at which time the Company will reassess the liability balance to ensure it appropriately reflects the remaining liability associated with the premises and record a liability for the estimated future variable lease costs.

The components of Restructuring and related expense for the three months ended March 31, 2021 and 2020 were as follows (in thousands):

	Three months ended	
	March 31, 2021	March 31, 2020
Severance and related costs	\$ 669	\$ 1,771
Variable and other facilities-related costs	1,913	234
Accelerated amortization of lease assets due to cease-use	3,368	70
	<u>\$ 5,950</u>	<u>\$ 2,075</u>

**Accelerated Rent Amortization**

Accelerated rent amortization is recognized from the date that the Company commences the plan to fully or partially vacate a facility, for which there is no intent or ability to enter into a sublease, through the final vacate date. The accelerated rent amortization recorded in connection with the Facilities Initiative reduced the value of the Company's Operating lease right-of-use assets recorded in the Company's condensed consolidated balance sheets at March 31, 2021 and December 31, 2020, respectively. The liability for the total lease payments for each respective facility is included as a component of Operating lease liabilities in the Company's condensed consolidated balance sheets, both current and noncurrent (see Note 17). The Company may incur additional future expense if it is unable to sublease other locations included in its restructuring initiatives.

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**2020 Restructuring Initiative**

In 2020, the Company implemented a restructuring plan to eliminate certain positions and redundant facilities, primarily in connection with the ECI Acquisition, to further streamline the Company's global footprint and improve its operations (the "2020 Restructuring Initiative"). In connection with this initiative, the Company expects to eliminate duplicate functions arising from the ECI Acquisition and support its efforts to integrate the two companies.

The Company recorded restructuring and related expense of \$0.4 million and \$1.1 million in connection with the 2020 Restructuring Initiative in the three months ended March 31, 2021 and 2020, respectively. The amount recorded in the three months ended March 31, 2021 was comprised of \$0.7 million for severance and related costs for approximately 10 employees and \$0.4 million of expense for variable costs related to restructured facilities, offset by a credit of \$0.7 million for changes in estimate related to amounts previously recorded. The amount recorded in the three months ended March 31, 2020 was for severance for three former executives of ECI. The Company expects the amounts related to severance will be paid in 2021. The Company expects that it will record additional restructuring and related expense approximating \$4 million under the 2020 Restructuring Initiative in the aggregate for severance and planned facility consolidations. A summary of the 2020 Restructuring Initiative accrual activity for severance and related costs for the three months ended March 31, 2021 is as follows (in thousands):

	Balance at January 1, 2021	Initiatives charged to expense	Adjustments for changes in estimate	Cash payments	Balance at March 31, 2021
Severance	\$ 5,237	\$ 669	\$ —	\$ (2,116)	\$ 3,790
Facilities	1,256	367	(670)	(916)	37
	<u>\$ 6,493</u>	<u>\$ 1,036</u>	<u>\$ (670)</u>	<u>\$ (3,032)</u>	<u>\$ 3,827</u>

**2019 Restructuring and Facilities Consolidation Initiative**

In June 2019, the Company implemented a restructuring plan to further streamline the Company's global footprint, improve its operations and enhance its customer delivery (the "2019 Restructuring Initiative"). The 2019 Restructuring Initiative includes facility consolidations, refinement of the Company's research and development activities, and a reduction in workforce. The facility consolidations under the 2019 Restructuring Initiative (the "Facilities Initiative") include a consolidation of the Company's North Texas sites into a single campus, housing engineering, customer training and support, and administrative functions, as well as a reduction or elimination of certain excess and duplicative facilities worldwide. In addition, the Company is substantially consolidating its global software laboratories and server farms into two lower cost North American sites. The Company continues to evaluate its properties included in the Facilities Initiative for accelerated amortization and/or right-of-use asset impairment. The Company expects that the actions under the Facilities Initiative will be completed in 2021.

In connection with the 2019 Restructuring Initiative, the Company recorded restructuring and related expense of \$5.6 million and \$1.0 million in the three months ended March 31, 2021 and 2020, respectively. The amount recorded in the three months ended March 31, 2021 related to facilities, including \$3.4 million of accelerated amortization of lease assets. The amount recorded in the three months ended March 31, 2020 was comprised of \$0.7 million for severance and related costs for five employees and \$0.3 million related to facilities. The Company expects that the entire amount accrued for severance and related costs will be paid in 2021. The Company estimates that it will record nominal, if any, additional restructuring and related expense related to severance and related costs under the 2019 Restructuring Initiative.

A summary of the 2019 Restructuring Initiative accrual activity for the three months ended March 31, 2021 is as follows (in thousands):

**RIBBON COMMUNICATIONS INC.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
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	Balance at January 1, 2021	Initiatives charged to expense	Reclassify accelerated amortization to operating lease liabilities	Cash payments	Balance at March 31, 2021
Severance	\$ 173	\$ —	\$ —	\$ (173)	\$ —
Facilities	766	5,584	(3,368)	(914)	2,068
	<u>\$ 939</u>	<u>\$ 5,584</u>	<u>\$ (3,368)</u>	<u>\$ (1,087)</u>	<u>\$ 2,068</u>

**Balance Sheet Classification**

The current portions of accrued restructuring are included as a component of Accrued expenses and the long-term portions of accrued restructuring are included as a component of Other long-term liabilities in the condensed consolidated balance sheets. The long-term portions of accrued restructuring relate to facilities and totaled \$2.1 million at March 31, 2021 and \$0.8 million at December 31, 2020.

**(10) DEBT**

**2020 Credit Facility**

On March 3, 2020, the Company entered into a Senior Secured Credit Facilities Credit Agreement (as amended, the "2020 Credit Facility"), by and among the Company, as a guarantor, Ribbon Communications Operating Company, Inc., as the borrower ("Borrower"), Citizens Bank, N.A. ("Citizens"), as administrative agent, a lender, issuing lender, swingline lender, joint lead arranger and bookrunner, Santander Bank, N.A., as a lender, joint lead arranger and bookrunner, and the other lenders party thereto (each, together with Citizens Bank, N.A. and Santander Bank, N.A., referred to individually as a "Lender", and collectively, the "Lenders"). The proceeds of the 2020 Credit Facility were used, in part, to pay off in full all obligations of the Company under its prior credit facility (the "2019 Credit Facility").

The 2020 Credit Facility provides for \$500 million of commitments from the lenders to the Borrower, comprised of \$400 million in term loans (the "2020 Term Loan Facility") and a \$100 million facility available for revolving loans (the "2020 Revolving Credit Facility"). Under the 2020 Revolving Credit Facility, a \$30 million sublimit is available for letters of credit and a \$20 million sublimit is available for swingline loans. Under the 2020 Credit Facility, the Company was originally required to make quarterly principal payments aggregating approximately \$10 million in the first year, \$20 million per year for the following three years, and \$30 million in the last year, with the remaining balance due on the maturity date. The 2020 Credit Facility also requires periodic interest payments until maturity.

The indebtedness and other obligations under the 2020 Credit Facility are unconditionally guaranteed on a senior secured basis by the Company, Edgewater Networks, Inc., a wholly-owned subsidiary of the Company, and GENBAND Inc., a wholly-owned subsidiary of the Company (together, the "Guarantors"). The facilities under the 2020 Credit Facility are secured by first-priority liens on substantially all of the assets of the Borrower and the Guarantors, including substantially all of the assets of the Company.

The 2020 Credit Facility requires compliance with certain financial covenants, including a minimum Consolidated Fixed Charge Coverage Ratio and a maximum Consolidated Net Leverage Ratio (each as defined in the 2020 Credit Facility, and each tested on a quarterly basis).

In addition, the 2020 Credit Facility contains various covenants that, among other restrictions, limit the Company's and its subsidiaries' ability to incur or assume indebtedness; grant or assume liens; make acquisitions or engage in mergers; sell, transfer, assign or convey assets; repurchase equity and make dividend and certain other restricted payments; make investments; engage in transactions with affiliates; enter into sale and leaseback transactions; enter into burdensome agreements; change the nature of its business; modify their organizational documents; and amend or make prepayments on certain junior debt.

**RIBBON COMMUNICATIONS INC.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
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The 2020 Credit Facility contains events of default that are customary for a secured credit facility. If an event of default relating to bankruptcy or other insolvency events with respect to the Company or any of its subsidiaries occurs, all obligations under the 2020 Credit Facility will immediately become due and payable. If any other event of default occurs under the 2020 Credit Facility, the lenders may accelerate the maturity of the obligations outstanding under the Credit Facility and exercise other rights and remedies, including charging a default rate of interest equal to 2.00% per year above the rate that would otherwise be applicable. In addition, if any event of default exists under the 2020 Credit Facility, the lenders can commence foreclosure or other actions against the collateral.

On August 18, 2020 (the "First Amendment Effective Date"), the Borrower entered into a First Amendment to the 2020 Credit Facility (the "First Amendment"). Pursuant to an assignment and assumption agreement entered into by Citizens and certain affiliates of Whitehorse Capital on the First Amendment Effective Date (collectively, "HIG Whitehorse"), and consented to by Citizens and the Borrower, \$75 million of the 2020 Term Loan Facility, designated as the Term B Loan (the "Term B Loan"), was assigned from Citizens to HIG Whitehorse. The remaining \$325 million of the 2020 Term Loan Facility that was not assigned to HIG Whitehorse was deemed the Term A Loan (the "Term A Loan" and, together with the Term B Loan, the "Amended 2020 Term Loan Facility").

The Term A Loan and the 2020 Revolving Credit Facility mature in March 2025. The Term A Loan and 2020 Revolving Credit Facility bear interest at the Borrower's option at either the LIBOR rate plus a margin ranging from 1.50% to 3.50% per year, or the base rate (the highest of the Federal Funds Effective Rate (as defined in the 2020 Credit Facility) plus 0.50%, or the prime rate announced from time to time in The Wall Street Journal) plus a margin ranging from 0.50% to 2.50% per year (the "Applicable Margin"). The Applicable Margin varies depending on the Company's Consolidated Net Leverage Ratio (as defined in the 2020 Credit Agreement). The base rate and the LIBOR rate are each subject to a zero percent floor. The Company was required to make quarterly principal payments on the Term A Loan aggregating approximately \$10 million in the first year, \$16 million per year in each of the next two years, \$20 million in the fourth year and \$16 million in the last year, with the final payment approximating \$244 million due on the maturity date. The Borrower could prepay all amounts under the Term A Loan and the 2020 Revolving Credit Facility at any time without premium or penalty (other than customary LIBOR breakage costs), subject to certain notice requirements.

The Term B Loan was scheduled to mature in March 2026 and bore interest, at the Borrower's option, at either the LIBOR rate plus a margin of 7.50% per year, or the base rate (the highest of the Federal Funds Effective Rate (as defined in the First Amendment) plus 0.50%, or the prime rate announced from time to time in The Wall Street Journal, plus a margin of 6.50% per year. The Term B Loan had a lower rate of amortization than the Term A Loan and was subject to a 1.0% premium if voluntarily repaid in connection with a repricing transaction (as defined in the 2020 Credit Facility) occurring prior to the six month anniversary of the First Amendment Effective Date. The Company was required to make quarterly principal payments totaling approximately \$1 million in the first year and \$8 million in the aggregate over the next four and a half years, with the final payment approximating \$66 million.

The First Amendment reduced the Borrower's ability to incur new tranches of term loans, or increases in commitments under the Amended 2020 Term Loan Facility or the 2020 Revolving Credit Facility. Specifically, such indebtedness could be incurred up to an aggregate dollar amount equal to 75% of the Company's Consolidated Adjusted EBITDA (as defined in the 2020 Credit Facility), reduced from 100% prior to the First Amendment, as of the most recently ended fiscal quarter for which financial statements had been delivered to the lenders, plus additional amounts, so long as the Borrower's Consolidated Net Leverage Ratio (as defined in the 2020 Credit Agreement) did not exceed 2.25:1.00, reduced from 2.75:1.00 under the 2020 Credit Agreement. The First Amendment also reduced the amount of Unrestricted Cash (as defined in the 2020 Credit Agreement) used in calculating the Borrower's Consolidated Net Leverage Ratio from \$25 million to \$10 million.

On December 1, 2020, the Borrower entered into a Second Amendment to the 2020 Credit Facility to obtain consent for an equity exchange with AVCT in connection with the Kandy Sale, as well as to amend certain other provisions of the 2020 Credit Facility.

At December 31, 2020, the Company had an outstanding Term A Loan balance of \$318.5 million at an average interest rate of 3.4%, and an outstanding Term B Loan balance of \$74.6 million at an average interest rate of 8.4%. The 2020 Revolving Credit Facility did not have an outstanding balance but had \$5.6 million of letters of credit outstanding with an interest rate of 2.5%.

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On March 3, 2021 (the "Third Amendment Effective Date"), the Company, the Borrower and certain of its subsidiaries entered into a Third Amendment to Credit Agreement (the "Third Amendment"), which further amends the 2020 Credit Facility. The Third Amendment provided for an incremental term loan facility to the Borrower in the original principal amount of \$74.6 million, the proceeds of which were used on the Third Amendment Effective Date to consummate an open market purchase of all outstanding amounts under the Term B Loan. Upon the consummation of the open market purchase, the Term B Loans were assigned to the Borrower and immediately cancelled, such that the outstanding amount under the Term A Loan and incremental term loan facility were combined and held by the Lenders (the "2020 Term Loan") with the same terms as the Term A Loan. The Company wrote off \$2.5 million of capitalized debt issuance costs in connection with the Third Amendment, which is included in Interest expense, net, in the Company's condensed consolidated statement of operations for the three months ended March 31, 2021. The Company is required to make quarterly principal payments on the 2020 Term Loan aggregating approximately \$20 million per year in the first three years and \$30 million in the fourth year, with the final payment approximating \$300 million due on the maturity date.

The Third Amendment increased the Borrower's ability to incur new incremental revolving commitments or term loans. Such indebtedness can be incurred up to an aggregate dollar limit equal to 100% of the Company's Consolidated Adjusted EBITDA (as defined in the 2020 Credit Facility) as of the most recently ended fiscal quarter for which financial statements have been delivered to the Lenders, plus additional amounts, so long as the Borrower's Consolidated Net Leverage Ratio (as defined in the Credit Agreement) does not exceed 2.75:1.00, increased from 2.25:1.00 under the First Amendment. The Third Amendment also increased the amount of Unrestricted Cash (as defined in the 2020 Credit Facility) used in calculating the Borrower's Consolidated Net Leverage Ratio from \$10.0 million to \$25.0 million.

At March 31, 2021, the Company had an outstanding 2020 Term Loan balance of \$390.6 million at an average interest rate of 3.40% and \$6.4 million of letters of credit outstanding with an interest rate of 2.50%.

The Company was in compliance with all covenants of the 2020 Credit Facility at both March 31, 2021 and December 31, 2020.

**Short-Term Loan**

From time to time, the Company enters into uncommitted and unsecured short-term loans to finance exports in China. The Company did not have any such short-term loans outstanding at March 31, 2021 and December 31, 2020.

**Letters of Credit and Performance and Bid Bonds**

The Company uses letters of credit, performance and bid bonds in the course of its business. At March 31, 2021, the Company had bank guarantees, performance and bid bonds under various uncommitted facilities (collectively, the "Guarantees") aggregating \$26.9 million and \$6.4 million of letters of credit under the 2020 Credit Facility (the "Letters of Credit"). At December 31, 2020, the Company had Guarantees aggregating \$27.0 million and \$5.6 million of Letters of Credit. At both March 31, 2021 and December 31, 2020, the Company had cash collateral of \$2.7 million supporting the Guarantees, which are included in Restricted cash in the condensed consolidated balance sheets.

**(11) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

The Company is exposed to financial market risk related to foreign currency fluctuations and changes in interest rates. These exposures are actively monitored by management. To manage the volatility related to the exposure to changes in interest rates, the Company has entered into a derivative financial instrument. Management's objective is to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flows associated with changes in interest rates. Ribbon's policies and practices are to use derivative financial instruments only to the extent necessary to manage exposures. Ribbon does not hold or issue derivative financial instruments for trading or speculative purposes.

The Company records derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a

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hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a specific risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge, or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

**Cash Flow Hedge of Interest Rate Risk**

The 2020 Term Loan Facility had outstanding balances of \$390.6 million and \$393.1 million at March 31, 2021 and December 31, 2020, respectively. The 2020 Revolving Credit Facility was undrawn at both March 31, 2021 and December 31, 2020. Borrowings under the 2020 Credit Facility have variable interest rates based on LIBOR (see Note 10). As a result of exposure to interest rate movements, during March 2020, the Company entered into an interest rate swap arrangement, which effectively converted its \$400 million term loan with its variable interest rate based upon one-month LIBOR to an aggregate fixed rate of 0.904%, plus a leverage-based margin as defined in the 2020 Credit Facility. The notional amount of this swap at March 31, 2021 was \$400 million, and the swap matures on March 3, 2025, the same date the 2020 Credit Facility matures.

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company is using an interest rate swap as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of designated derivatives that qualify as cash flow hedges is recorded in accumulated other comprehensive income (loss) in the condensed consolidated balance sheet and is subsequently reclassified into earnings in the period that the hedged forecasted transactions affect earnings. During the three months ended March 31, 2021 and 2020, such a derivative was used to hedge the variable cash flows associated with the outstanding borrowings under the 2020 Credit Facility and the Company has accounted for this derivative as an effective hedge. Any ineffective portion of the change in the fair value of the derivative would be recognized directly in earnings.

Amounts reported in accumulated other comprehensive income (loss) related to the Company's derivative are reclassified to interest expense as interest is accrued on the Company's variable-rate debt. Based upon projected forward rates, the Company estimates as of March 31, 2021 that \$3.1 million may be reclassified as an increase to interest expense over the next twelve months.

The impact of the Company's derivative financial instrument on its condensed consolidated statement of comprehensive income (loss) for the three months ended March 31, 2021 and 2020 was as follows (in thousands):

	Three months ended	
	March 31, 2021	March 31, 2020
Gain (loss) recognized in other comprehensive loss on derivative (effective portion)	\$ 5,889	\$ (9,337)
Amount reclassified to (from) accumulated other comprehensive income (loss) to interest expense (effective portion)	780	(190)
	<u>\$ 6,669</u>	<u>(9,527)</u>

The fair values and locations in the condensed consolidated balance sheets at March 31, 2021 and December 31, 2020 of the Company's derivative liability designated as a hedging instrument were as follows (in thousands):



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	<b>Balance sheet location</b>	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Interest rate derivative - liability derivative	Accrued expenses and other	\$ 3,119	\$ 3,157
Interest rate derivative - liability derivative	Other long-term liabilities	\$ 1,160	\$ 7,791

The Company has classified the interest rate derivative aggregating \$4.3 million and \$10.9 million at March 31, 2021 and December 31, 2020, respectively, as Level 2 fair value measurements within the fair value hierarchy (see Note 1).

**(12) REVENUE RECOGNITION**

The Company derives revenue from two primary sources: products and services. Product revenue includes the Company's hardware and software that function together to deliver the products' essential functionality. Software and hardware are also sold on a standalone basis. Services include customer support (software updates, upgrades and technical support), consulting, design services, installation services and training. Generally, contracts with customers contain multiple performance obligations, consisting of products and services. For these contracts, the Company accounts for individual performance obligations separately if they are considered distinct.

When an arrangement contains more than one performance obligation, the Company will allocate the transaction price to each performance obligation on a relative standalone selling price basis. The Company utilizes the observable price of goods and services when they are sold separately to similar customers in order to estimate standalone selling price.

The Company's software licenses typically provide a perpetual right to use the Company's software. The Company also sells term-based software licenses that expire and Software-as-a-Service ("SaaS")-based software which are referred to as subscription arrangements. The Company does not customize its software nor are installation services required, as the customer has a right to utilize internal resources or a third-party service company. The software and hardware are delivered before related services are provided and are functional without professional services or customer support. The Company has concluded that its software licenses are functional intellectual property that are distinct, as the user can benefit from the software on its own. Product revenue is typically recognized upon transfer of control or when the software is made available for download, as this is the point the user of the software can direct the use of, and obtain substantially all of the remaining benefits from, the functional intellectual property. The Company begins to recognize software revenue related to the renewal of subscription software licenses at the start of the subscription period.

The Company offers warranties on its products. Certain of the Company's warranties are considered to be assurance-type in nature, ensuring the product is functioning as intended. Assurance-type warranties do not represent separate performance obligations. The Company also sells separately-priced maintenance service contracts which qualify as service-type warranties and represent separate performance obligations. The Company does not allow and has no history of accepting product returns.

Services revenue includes revenue from customer support and other professional services. Customer support includes software updates on a when-and-if-available basis, telephone support, integrated web-based support and bug fixes or patches. The Company sells its customer support contracts at a percentage of list or net product price. Customer support revenue is recognized ratably over the term of the customer support agreement, which is typically one year.

The Company's professional services include consulting, technical support, resident engineer services, design services and installation services. Because control transfers over time, revenue is recognized based on progress toward completion of the performance obligation. The method to measure progress toward completion requires judgment and is based on the nature of the products or services to be provided. The Company generally uses the input method to measure progress for its contracts because it believes such method best depicts the transfer of assets to the customer, which occurs as the Company incurs costs for the contracts. However, in some instances, the Company uses the output method because it best depicts the transfer of asset to the customer. Under the cost-to-cost measure of progress, the progress toward completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. When the measure of progress is based upon expended labor, progress toward completion is measured as the ratio of labor time expended to date versus the total

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estimated labor time required to complete the performance obligation. Revenue is recorded proportionally as costs are incurred or as labor is expended. Costs to fulfill these obligations include internal labor as well as subcontractor costs.

Customer training includes courses offered by the Company. The related revenue is typically recognized as the training services are performed.

The Company's typical performance obligations include the following:

<b>Performance Obligation</b>	<b>When Performance Obligation is Typically Satisfied</b>	<b>When Payment is Typically Due</b>
<b>Software and Product Revenue</b>		
Software licenses (perpetual or term)	Upon transfer of control; typically, when made available for download (point in time)	Generally, within 30 days of invoicing except for term licenses, which may be paid for over time
Software licenses (subscription)	Upon activation of hosted site (over time)	Generally, within 30 days of invoicing
Hardware	When control of the hardware passes to the customer; typically, upon delivery (point in time)	Generally, within 30 days of invoicing
Software upgrades	Upon transfer of control; typically, when made available for download (point in time)	Generally, within 30 days of invoicing
<b>Customer Support Revenue</b>		
Customer support	Ratably over the course of the support contract (over time)	Generally, within 30 days of invoicing
<b>Professional Services</b>		
Other professional services (excluding training services)	As work is performed (over time)	Generally, within 30 days of invoicing (upon completion of services)
Training	When the class is taught (point in time)	Generally, within 30 days of services being performed

**Significant Judgments**

The Company's contracts with customers often include promises to transfer multiple products and services to the customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment.

Judgment is required to determine the standalone selling price ("SSP") for each distinct performance obligation. The Company typically has more than one SSP for individual products and services due to the stratification of those products and services by customers and circumstances. In these instances, the Company may use information such as the size of the customer and geographic region in determining the SSP.

**Deferred Revenue**

Deferred revenue is a contract liability representing amounts collected from or invoiced to customers in excess of revenue recognized. This results primarily from the billing of annual customer support agreements where the revenue is recognized over the term of the agreement. The value of deferred revenue will increase or decrease based on the timing of recognition of revenue.

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**Disaggregation of Revenue**

The Company disaggregates its revenue from contracts with customers based on the nature of the products and services and the geographic regions in which each customer is domiciled. The Company's revenue for the three months ended March 31, 2021 and 2020 was disaggregated as follows:

Three months ended March 31, 2021	Product revenue	Service revenue (maintenance)	Service revenue (professional services)	Total revenue
United States	\$ 36,812	\$ 31,606	\$ 11,162	\$ 79,580
Europe, Middle East and Africa	28,208	19,655	6,910	54,773
Asia Pacific	25,582	9,748	5,803	41,133
Other	7,287	7,696	2,303	17,286
	<u>\$ 97,889</u>	<u>\$ 68,705</u>	<u>\$ 26,178</u>	<u>\$ 192,772</u>

Three months ended March 31, 2020	Product revenue	Service revenue (maintenance)	Service revenue (professional services)	Total revenue
United States	\$ 36,365	\$ 31,466	\$ 10,566	\$ 78,397
Europe, Middle East and Africa	20,365	14,810	4,015	39,190
Asia Pacific	14,943	7,511	4,878	27,332
Other	4,226	7,281	1,556	13,063
	<u>\$ 75,899</u>	<u>\$ 61,068</u>	<u>\$ 21,015</u>	<u>\$ 157,982</u>

The Company's product revenue from indirect sales through its channel partner program and from its direct sales program for the three months ended March 31, 2021 and 2020 was as follows (in thousands):

	Three months ended	
	March 31, 2021	March 31, 2020
Indirect sales through channel partner program	\$ 20,163	\$ 28,604
Direct sales	77,726	47,295
	<u>\$ 97,889</u>	<u>\$ 75,899</u>

The Company's product revenue from sales to enterprise customers and from sales to service provider customers for the three months ended March 31, 2021 and 2020 was as follows (in thousands):

	Three months ended	
	March 31, 2021	March 31, 2020
Sales to enterprise customers	\$ 22,668	\$ 27,281
Sales to service provider customers	75,221	48,618
	<u>\$ 97,889</u>	<u>\$ 75,899</u>

The Company's product revenue and service revenue components by segment for the three months ended March 31, 2021 and 2020 was as follows (in thousands):

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	Three months ended	
	March 31, 2021	March 31, 2020
<b>Product revenue</b>		
Cloud and Edge	\$ 50,152	\$ 54,210
IP Optical Networks	47,737	21,689
Total product revenue	<u>\$ 97,889</u>	<u>\$ 75,899</u>
<b>Service revenue</b>		
<b>Maintenance</b>		
Cloud and Edge	\$ 54,673	\$ 55,556
IP Optical Networks	14,032	5,512
Total maintenance revenue	<u>68,705</u>	<u>61,068</u>
<b>Professional services</b>		
Cloud and Edge	20,597	18,265
IP Optical Networks	5,581	2,750
Total professional services revenue	<u>26,178</u>	<u>21,015</u>
Total service revenue	<u>\$ 94,883</u>	<u>\$ 82,083</u>

**Revenue Contract Balances**

The timing of revenue recognition, billings and cash collections results in billed accounts receivable; unbilled receivables, which are contract assets; and customer advances and deposits, which are contract liabilities, in the Company's condensed consolidated balance sheets. Amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or upon achievement of contractual milestones. Completion of services and billing may occur subsequent to revenue recognition, resulting in contract assets. The Company may receive advances or deposits from its customers before revenue is recognized, resulting in contract liabilities that are classified as deferred revenue. These assets and liabilities are reported in the Company's condensed consolidated balance sheets on a contract-by-contract basis as of the end of each reporting period. Changes in the contract asset and liability balances during the three months ended March 31, 2021 were not materially impacted by any factors other than billing and revenue recognition. Nearly all of the Company's deferred revenue balance is related to services revenue, primarily customer support contracts. Unbilled receivables stem primarily from engagements where services have been performed; however, billing cannot occur until services are completed.

In some arrangements, the Company allows customers to pay for term-based software licenses and products over the term of the software license. The Company also sells SaaS-based software under subscription arrangements, with payment terms over the term of the SaaS agreement. Amounts recognized as revenue in excess of amounts billed are recorded as unbilled receivables. Unbilled receivables that are anticipated to be invoiced in the next twelve months are included in Accounts receivable on the Company's condensed consolidated balance sheets. The changes in the Company's accounts receivable, unbilled receivables and deferred revenue balances for the three months ended March 31, 2021 were as follows (in thousands):

	Accounts receivable	Unbilled accounts receivable	Deferred revenue (current)	Deferred revenue (long-term)
Balance at January 1, 2021	\$ 179,331	\$ 58,407	\$ 96,824	\$ 26,010
Increase (decrease), net	(27,719)	(856)	5,279	(2,956)
Balance at March 31, 2021	<u>\$ 151,612</u>	<u>\$ 57,551</u>	<u>\$ 102,103</u>	<u>\$ 23,054</u>

The Company recognized approximately \$42 million of revenue in the months ended March 31, 2021 that was recorded as deferred revenue at December 31, 2020 and approximately \$41 million of revenue in the three months ended March 31, 2020 that was recorded as deferred revenue at December 31, 2019. Of the Company's deferred revenue reported as long-term in its condensed consolidated balance sheet at March 31, 2021, the Company expects that approximately \$11 million will be

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recognized as revenue in 2022, approximately \$8 million will be recognized as revenue in 2023 and approximately \$4 million will be recognized as revenue in 2024 and beyond.

All freight-related customer invoicing is recorded as revenue, while the shipping and handling costs that occur after control of the promised goods or services transfer to the customer are reported as fulfillment costs, a component of Cost of revenue - product in the Company's condensed consolidated statements of operations.

***Deferred Commissions Cost***

Sales commissions earned by the Company's employees are considered incremental and recoverable costs of obtaining a contract with a customer. Expense related to commission payments has been deferred on our condensed consolidated balance sheet and is being amortized over the expected life of the customer contract, which averages five years. The current and long-term portions of deferred commission expense are included as components of Other current assets and Other assets, respectively. At both March 31, 2021 and December 31, 2020, the Company had \$4.1 million of deferred sales commissions capitalized.

**(13) OPERATING SEGMENT INFORMATION**

The Company has two reportable segments, which are intended to align with the manner in which the business is managed: Cloud and Edge, and IP Optical Networks.

The Cloud and Edge segment provides secure and reliable software and hardware products, solutions and services for enabling Voice over Internet Protocol ("VoIP") communications, Voice over Long-Term Evolution ("VoLTE") and Voice Over 5G ("VoNR") communications and Unified Communications and Collaboration ("UC&C") within service provider and enterprise networks and from the cloud. The Cloud and Edge products are increasingly software-centric and cloud-native for deployment on private, public or hybrid cloud infrastructures, in data centers, on enterprise premises and within service provider networks. Ribbon's Cloud and Edge product portfolio consists of our Session Border Controller ("SBC") products and our Network Transformation ("NTR") products.

The IP Optical Networks segment provides high-performance, secure and reliable hardware and software products solutions for IP networking, switching, routing and optical transport designed to support and enable technologies like 5G, distributed cloud computing and corresponding applications by delivering ultra-low cost-per-bit transport and multi-service flexibility. The IP Optical Networks portfolio offers multiple solutions, including 5G-native solutions for mobile backhaul, metro and edge aggregation, core networking, data center interconnect, legacy NTR and transport solutions for wholesale carriers. This portfolio is offered to service provider, enterprise and industry verticals with critical transport network infrastructures including utilities, government, defense, transportation, and education and research Information for the IP Optical Networks segment for the three months ended March 31, 2020 includes the financial results of this segment for the period subsequent to the ECI Acquisition Date.

The Company has not provided segment asset information as such information is not provided to the CODM and accordingly, asset information is not used in assessing segment performance. Please see Note 6 for information regarding the allocation of goodwill between segments. Segment revenue and expenses included in the tables below represent direct revenue and expenses attributable to each segment for revenue, adjusted gross profit, and the research and development expense component of adjusted EBITDA. The Company's sales, marketing, and general and administrative functions support both segments and accordingly, these costs are allocated to both segments.

The CODM utilizes revenue, adjusted gross profit and adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) to measure and assess each segment's performance. The Company calculates adjusted EBITDA by excluding from income (loss) from operations: depreciation; amortization of acquired intangible assets; stock-based compensation; certain litigation costs; acquisition-, disposal- and integration-related expense; and restructuring and related expense. These adjusted measures may also exclude other items in future periods that the Company believes are not part of the Company's core business. Adjusted gross profit and adjusted EBITDA are not financial measures determined in accordance with U.S. GAAP and may not be comparable to similarly titled measures used by other companies and should not be considered a substitute for income (loss)

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from operations or gross profit or other results reported in accordance with U.S. GAAP. See below for a reconciliation of adjusted gross profit to gross profit and adjusted EBITDA to income (loss) from operations, as those are the most directly comparable U.S. GAAP measures.

The tables below provide net sales, adjusted gross profit, adjusted EBITDA and depreciation expense by reportable segment for the three months ended March 31, 2021 and 2020 (in thousands):

	Three months ended	
	March 31, 2021	March 31, 2020
<b>Segment revenue:</b>		
Cloud and Edge	\$ 125,422	\$ 128,031
IP Optical Networks	67,350	29,951
Revenue	<u>\$ 192,772</u>	<u>\$ 157,982</u>

	Three months ended	
	March 31, 2021	March 31, 2020
<b>Segment adjusted gross profit:</b>		
Cloud and Edge	\$ 84,335	\$ 78,935
IP Optical Networks	26,474	11,746
Total segment adjusted gross profit	110,809	90,681
Stock-based compensation expense	(262)	(157)
Gross profit	<u>\$ 110,547</u>	<u>\$ 90,524</u>

	Three months ended	
	March 31, 2021	March 31, 2020
<b>Segment adjusted EBITDA:</b>		
Cloud and Edge	\$ 28,330	\$ 9,739
IP Optical Networks	(8,678)	(198)
Total segment adjusted EBITDA	19,652	9,541
Depreciation	(4,226)	(3,474)
Amortization of intangible assets	(15,823)	(14,334)
Stock-based compensation	(5,060)	(2,976)
Litigation costs	—	(3,038)
Acquisition-, disposal- and integration-related expense	(1,197)	(12,384)
Restructuring and related expense	(5,950)	(2,075)
Loss from operations	<u>\$ (12,604)</u>	<u>\$ (28,740)</u>

<b>Segment depreciation expense:</b>		
Cloud and Edge	\$ 3,137	\$ 2,993
IP Optical Networks	1,089	481
Depreciation expense	<u>\$ 4,226</u>	<u>\$ 3,474</u>

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**(14) MAJOR CUSTOMERS**

The following customers contributed 10% or more of the Company's revenue in the three months ended March 31, 2021 and 2020:

	<b>Three months ended</b>	
	<b>March 31, 2021</b>	<b>March 31, 2020</b>
Verizon Communications Inc.	16%	13%
AT&T Inc.	*	10%

\* Represents less than 10% of total revenue.

At March 31, 2021, one customer accounted for 10% or more of the Company's accounts receivable balance, representing approximately 16% of total accounts receivable. At December 31, 2020, one customer accounted for 10% or more of the Company's accounts receivable balance, representing approximately 12% of total accounts receivable. The Company performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable, although in some instances the Company may require letters of credit to support customer outstanding accounts receivable balances. The Company maintains an allowance for doubtful accounts and such losses have been within management's expectations.

**(15) COMMON STOCK REPURCHASES**

In the second quarter of 2019, the Company's Board of Directors (the "Board") approved a stock repurchase program (the "Repurchase Program") pursuant to which the Company could repurchase up to \$75 million of its common stock prior to April 18, 2021. The Company did not repurchase any common stock during the three months ended March 31, 2021 or 2020. At both March 31, 2020 and December 31, 2020, the Company had \$70.5 million remaining under the Repurchase Program for future repurchases. The Repurchase Program expired on April 18, 2021.

**(16) STOCK-BASED COMPENSATION PLANS**

**2019 Stock Incentive Plan**

The Company's Amended and Restated 2019 Incentive Award Plan (the "2019 Plan") provides for the award of options to purchase the Company's common stock ("stock options"), stock appreciation rights ("SARs"), restricted stock awards ("RSAs"), performance-based stock awards ("PSAs"), restricted stock units ("RSUs"), performance-based stock units ("PSUs") and other stock- or cash-based awards. Awards can be granted under the 2019 Plan to the Company's employees, officers and non-employee directors, as well as consultants and advisors of the Company and its subsidiaries.

**2007 Plan**

The Company's 2007 Plan provided for the award of stock options, SARs, RSAs, PSAs, RSUs, PSUs and other stock-based awards to employees, officers, non-employee directors, consultants and advisors of the Company and its subsidiaries. On and following June 5, 2019, with the exception of shares underlying awards outstanding as of that date, no additional shares may be granted under the 2007 Plan.

**Assumed Stock Plans**

In connection with the acquisition of Edgewater Networks, Inc. in August 2018, the Company assumed Edgewater's Amended and Restated 2002 Stock Option Plan (the "Edgewater Plan") to the extent of the shares underlying the options outstanding under the Edgewater Plan as of the Edgewater Acquisition Date (the "Edgewater Options"). The Edgewater Options were converted to Ribbon stock options (the "Ribbon Replacement Options") which are vesting under the same

**RIBBON COMMUNICATIONS INC.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
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schedules as the respective Edgewater Options.

In connection with the Company's acquisitions of Performance Technologies Inc. ("PT") in 2014, and Network Equipment Technologies, Inc. ("NET") in 2012, the Company assumed their stock plans (collectively, the "Assumed Plans"). Any outstanding awards under the Assumed Plans that in the future expire, terminate, are cancelled or surrendered, or are repurchased by the Company will be returned to the 2019 Plan. Accordingly, no additional shares may be granted under the Assumed Plans.

**Executive Equity Arrangements**

*Inducement Awards*

In connection with his appointment as President and Chief Executive Office of Ribbon, and as an inducement for Bruce McClelland's ("Mr. McClelland") commencement of employment, the Company awarded Mr. McClelland sign-on equity grants, comprised of 462,963 RSUs and a PSU grant with both market and service conditions (the "Inducement PSUs") on March 16, 2020. The RSUs vested and were released to Mr. McClelland on March 16, 2021. Subject to Mr. McClelland's continued employment, the Inducement PSUs are eligible to vest and be settled in up to 4,750,000 shares of Ribbon common stock upon the achievement of specified share price thresholds on or prior to September 1, 2024. The first share price threshold for Mr. McClelland's Inducement PSUs was achieved on February 26, 2021, and accordingly 1,333,333 shares were released to him. These releases are included in the applicable tables below.

*Performance-Based Stock Grants*

In addition to granting RSUs to its executives and certain of its employees, the Company also grants PSUs to certain of its executives, including the Inducement PSUs granted to Mr. McClelland as described above.

In 2021, 2020 and 2019, the Company granted certain of its executives (the "2021 PSUs", "2020 PSUs" and "2019 PSUs", respectively), of which 60% of each executive's PSU grant had both performance and service conditions (the "Performance PSUs") and 40% had both market and service conditions (the "Market PSUs").

Each executive's Performance PSU grant is comprised of three consecutive fiscal year performance periods beginning in the year of grant (each, a "Fiscal Year Performance Period"), with one-third of the Performance PSUs attributable to each Fiscal Year Performance Period. The number of shares that will be vest for each Fiscal Year Performance Period, if any, will be based on the achievement of certain metrics related to the Company's financial performance for the applicable year on a standalone basis (each, a "Fiscal Year Performance Condition"). The Company's achievement of the goals for each Fiscal Year Performance Condition (and the number of shares of Company common stock to vest as a result thereof) are being measured on a linear sliding scale in relation to specific threshold, target and stretch performance conditions, with any shares earned vesting in the first quarter of the fiscal year following the third Performance Period of the grant, pending each executive's continued employment with the Company through that date. The number of shares of common stock underlying the Performance PSUs that can be earned will in no event exceed 200% of the Performance PSUs. Shares subject to the Performance PSUs that fail to be earned will be forfeited.

The Market PSUs have one three-year performance period, beginning January 1 in the year of grant and ending on December 31, three years thereafter (the "Market Performance Period"). The number of shares subject to the Market PSUs that will vest, if any, will be dependent upon the Company's total shareholder return ("TSR") compared with the TSR of the companies included in a custom index for the applicable Market Performance Period, measured by the Compensation Committee after the Market Performance Period ends, with any shares earned vesting in the first quarter of the fiscal year following the respective Market Performance Period, pending each executive's continued employment with the Company through that date. The number of shares of common stock underlying the Market PSUs that can be earned will in no event exceed 200% of the Market PSUs. Shares subject to the Market PSUs that fail to be earned will be forfeited.

In addition, in connection with his appointment as Executive Vice President and General Manager, Packet Optical Networking, the Company granted Sam Bucci 133,333 PSUs (the "Bucci Stock Price PSUs") with both market and service conditions. Subject to Mr. Bucci's continued employment, the Bucci Stock Price PSUs were eligible to vest and be settled in



**RIBBON COMMUNICATIONS INC.**  
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shares of Ribbon's common stock upon the achievement of a specific share price threshold on or prior to January 31, 2022. The share price threshold for Mr. Bucci's Stock Price PSUs was achieved on February 12, 2021, and the shares were released to him. This release is included in the applicable table below.

**Accounting for Performance PSUs.** Once the grant date criteria have been met for a Fiscal Year Performance Period, the Company records stock-based compensation expense for the respective underlying Performance PSUs based on its assessment of the probability that each performance condition will be achieved and the level, if any, of such achievement. The Compensation Committee determines the number of shares earned, if any, after the Company's financial results for each Fiscal Year Performance Period are finalized. Upon the determination by the Compensation Committee of the number of shares that will be received upon vesting of the Performance PSUs, such number of shares becomes fixed and the unamortized expense is recorded through the remainder of the service period, generally three years from the date of grant, at which time the total Performance PSUs earned, if any, will vest, pending each executive's continued employment with the Company through that date.

**Accounting for Market PSUs.** PSUs that include a market condition require the use of a Monte Carlo simulation approach to model future stock price movements based upon the risk-free rate of return, the date of return, the volatility of each entity and the pair-wise covariance between each entity. These results are then used to calculate the grant date fair values of the respective PSUs. The Company is required to record expense for the PSUs with market conditions through their respective final vesting dates, regardless of the number of shares that are ultimately earned.

At March 31, 2021, the calculation of the grant date fair value of the Market PSUs granted on March 15, 2021 had not been completed. The Company used a grant date fair value of \$8.65, the closing stock price on the date of grant, to calculate expense attributable to the three months ended March 31, 2021 for these Market PSUs. The Company expects to complete the Monte Carlo valuation of these Market PSUs and will record a cumulative adjustment to expense to account for the change in grant date fair value, if any, in the second quarter of 2021. The Company does not expect any such adjustment to have a material impact on its consolidated financial statements.

**Employee Bonus Program**

Effective in 2021, the Company added an equity component to its cash bonus program for eligible employees, under which RSUs with a grant date fair value equal to 50% of each employee's target cash bonus were granted to each such employee (the "Bonus RSUs"). Correspondingly, cash target bonuses for eligible employees were reduced by 50%. The Company implemented this program to expand the opportunities for stock ownership more broadly throughout the Company. The Bonus RSU grants are included in the applicable table below.

**Stock Options**

The activity related to the Company's outstanding stock options for the three months ended March 31, 2021 was as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2021	207,710	\$ 12.69		
Exercised	(13,389)	\$ 1.76		
Outstanding at March 31, 2021	<u>194,321</u>	<u>\$ 13.44</u>	3.31	\$ 267
Vested or expected to vest at March 31, 2021	194,253	\$ 13.45	3.31	\$ 266
Exercisable at March 31, 2021	191,930	\$ 13.59	3.27	\$ 252

The total intrinsic value of options exercised was \$0.1 million for the three months ended March 31, 2021. The Company received cash from option exercises of \$24,000 in the three months ended March 31, 2021.

**RIBBON COMMUNICATIONS INC.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
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**Restricted Stock Awards and Units**

The activity related to the Company's RSAs for the three months ended March 31, 2021 was as follows:

	Shares		Weighted Average Grant Date Fair Value
Unvested balance at January 1, 2021	86,983	\$	7.04
Vested	(86,983)	\$	7.04
Unvested balance at March 31, 2021	<u>—</u>	<u>\$</u>	<u>—</u>

The activity related to the Company's RSUs for the three months ended March 31, 2021 was as follows:

	Shares		Weighted Average Grant Date Fair Value
Unvested balance at January 1, 2021	6,531,110	\$	3.32
Granted	2,885,002	\$	8.59
Vested	(1,575,645)	\$	2.60
Forfeited	(372,984)	\$	3.68
Unvested balance at March 31, 2021	<u>7,467,483</u>	<u>\$</u>	<u>5.49</u>

The total grant date fair value of shares of restricted stock granted under RSAs and RSUs that vested during the three months ended March 31, 2021 was \$4.7 million.

**Performance-Based Stock Units**

The activity related to the Company's PSUs for the three months ended March 31, 2021 was as follows:

	Shares		Weighted Average Grant Date Fair Value
Unvested balance at January 1, 2021	6,035,931	\$	1.56
Granted	642,121	\$	5.83
Vested	(1,525,681)	\$	0.98
Forfeited	(57,480)	\$	5.12
Unvested balance at March 31, 2021	<u>5,094,891</u>	<u>\$</u>	<u>2.40</u>

The total grant date fair value of shares of restricted stock granted under PSUs that vested during the three months ended March 31, 2021 was \$1.5 million.

**Stock-Based Compensation**

The condensed consolidated statements of operations include stock-based compensation for the three months ended March 31, 2021 and 2020 as follows (in thousands):

**RIBBON COMMUNICATIONS INC.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
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	Three months ended	
	March 31, 2021	March 31, 2020
Product cost of revenue	\$ 27	\$ 27
Service cost of revenue	235	130
Research and development	627	558
Sales and marketing	1,874	752
General and administrative	2,297	1,509
	<u>\$ 5,060</u>	<u>\$ 2,976</u>

There was a nominal income tax benefit for stock-based compensation in the three months ended March 31, 2021; however, there was no income tax benefit in the three months ended March 31, 2020 due to the valuation allowance recorded.

At March 31, 2021, there was \$36.4 million, net of expected forfeitures, of unrecognized stock-based compensation expense related to unvested stock options, stock awards and stock units. This expense is expected to be recognized over a weighted average period of approximately two years.

**(17) LEASES**

The Company has operating and finance leases for corporate offices, research and development facilities, and certain equipment. Operating leases are reported separately in the Company's condensed consolidated balance sheets. Assets acquired under finance leases are included in Property and equipment, net, in the condensed consolidated balance sheets.

The Company determines if an arrangement is a lease at inception. A contract is determined to contain a lease component if the arrangement provides the Company with a right to control the use of an identified asset. Lease agreements may include lease and non-lease components. In such instances for all classes of underlying assets, the Company does not separate lease and non-lease components but rather, accounts for the entire arrangement under leasing guidance. Leases with an initial term of 12 months or less are not recorded on the balance sheet and lease expense for these leases is recognized on a straight-line basis over the lease term.

Right-of-use assets and lease liabilities are initially measured based on the present value of the future minimum fixed lease payments (i.e., fixed payments in the lease contract) over the lease term at the commencement date. As the Company's existing leases do not have a readily determinable implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of future minimum fixed lease payments. The Company calculates its incremental borrowing rate to reflect the interest rate that it would have to pay to borrow on a collateralized basis an amount equal to the lease payments in a similar economic environment over a similar term and considers its historical borrowing activities and market data from entities with comparable credit ratings in this determination. The measurement of the right-of-use asset also includes any lease payments made prior to the commencement date (excluding any lease incentives) and initial direct costs incurred. The Company assessed its right-of-use assets for impairment as of March 31, 2021 and December 31, 2020 and determined no impairment has occurred.

Lease terms may include options to extend or terminate the lease and the Company incorporates such options in the lease term when it has the unilateral right to make such an election and it is reasonably certain that the Company will exercise that option. In making this determination, the Company considers its prior renewal and termination history and planned usage of the assets under lease, incorporating expected market conditions.

For operating leases, lease expense for minimum fixed lease payments is recognized on a straight-line basis over the lease term. The expense for finance leases includes both interest and amortization expense components, with the interest component calculated based on the effective interest method and the amortization component calculated based on straight-line amortization of the right-of-use asset over the lease term. Lease contracts may contain variable lease costs, such as common area maintenance, utilities and tax reimbursements that vary over the term of the contract. Variable lease costs are not included in minimum fixed lease payments and as a result, are excluded from the measurement of the right-of-use assets and lease

**RIBBON COMMUNICATIONS INC.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
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liabilities. The Company expenses all variable lease costs as incurred.

In connection with the 2019 Restructuring Initiative, certain lease assets related to facilities are being partially or fully vacated as the Company consolidates its facilities. The Company has no plans to enter into sublease agreements for certain facilities. The Company ceased use of these facilities in the first quarter of 2021, the first and fourth quarters of 2020 and the third quarter of 2019. Accordingly, the Company accelerated the amortization of the associated lease assets through the planned cease-use date of each facility, resulting in additional amortization expense of \$3.4 million and \$0.1 million in the three months ended March 31, 2021 and 2020, respectively. The Company also recorded expense of \$1.4 million in the aggregate in the three months ended March 31, 2021 for all estimated future variable lease costs related to these facilities. The Company recorded nominal expense for all estimated future variable lease costs in the three months ended March 31, 2020.

All accelerated amortization and accrual of future variable costs were recorded as Restructuring and related expense in the Company's condensed consolidated statements of operations. At March 31, 2021 and December 31, 2020, the Company had accruals of \$2.1 million and \$0.8 million, respectively, for all future anticipated variable lease costs related to these facilities. The Company may incur additional future expense if it is unable to sublease other locations included in the Facilities Initiative.

The Company leases its corporate offices and other facilities under operating leases, which expire at various times through 2032. In December 2020, the Company began relocating from its former leased Plano, Texas facility to its recently completed leased facility, also located in Plano, Texas, which became the Company's corporate headquarters. The Company's relocation to the new corporate headquarters was completed in the first quarter of 2021.

The Company's right-of-use lease assets and lease liabilities at March 31, 2021 and December 31, 2020 were as follows (in thousands):

	Classification	March 31, 2021	December 31, 2020
<b>Assets</b>			
Operating lease assets	Operating lease right-of-use assets	\$ 62,579	\$ 69,757
Finance lease assets*	Property and equipment, net	754	983
<b>Total leased assets</b>		<b>\$ 63,333</b>	<b>\$ 70,740</b>
<b>Liabilities</b>			
<b>Current</b>			
Operating	Operating lease liabilities	\$ 17,627	\$ 17,023
Finance	Accrued expenses and other	820	902
<b>Noncurrent</b>			
Operating	Operating lease liabilities, net of current	68,100	72,614
Finance	Other long-term liabilities	398	568
<b>Total lease liabilities</b>		<b>\$ 86,945</b>	<b>\$ 91,107</b>

\* Finance lease assets were recorded net of accumulated depreciation of \$2.2 million and \$1.9 million at March 31, 2021 and December 31, 2020, respectively.

The components of lease expense for the three months ended March 31, 2021 and 2020 were as follows (in thousands):

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	Three months ended	
	March 31, 2021	March 31, 2020
Operating lease cost*	\$ 8,837	\$ 3,344
Finance lease cost		
Amortization of leased assets	229	319
Interest on lease liabilities	26	55
Short-term lease cost	3,292	5,523
Variable lease costs (costs excluded from minimum fixed lease payments)**	2,158	637
Sublease income	(276)	—
Net lease cost	<u>\$ 14,266</u>	<u>\$ 9,878</u>

\* Operating lease cost for the three months ended March 31, 2021 included \$3.4 million of accelerated amortization for certain assets partially or fully vacated in 2021 with no intent or ability to sublease. Operating lease cost for the three months ended March 31, 2020 included \$0.1 million of accelerated amortization for certain assets partially or fully vacated in 2020 with no ability to sublease.

\*\* Variable lease costs for the three months ended March 31, 2021 included an accrual of \$1.4 million for all future estimated variable expenses related to certain assets partially or fully vacated in 2021 with no intent or ability to sublease. No such variable costs were accrued in the three months ended March 31, 2020.

Cash flow information related to the Company's leases for the three months ended March 31, 2021 and 2020 was as follows (in thousands):

	Three months ended	
	March 31, 2021	March 31, 2020
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows for operating leases	\$ 5,561	\$ 3,113
Operating cash flows for finance leases	\$ 26	\$ 55
Financing cash flows for finance leases	\$ 272	\$ 338

Other information related to the Company's leases as of March 31, 2021 and December 31, 2020 was as follows:

	March 31, 2021	December 31, 2020
Weighted average remaining lease term (years)		
Operating leases	6.52	6.59
Finance leases	1.51	1.70
Weighted average discount rate		
Operating leases	5.72 %	5.67 %
Finance leases	5.74 %	6.15 %

Future minimum fixed lease payments under noncancelable leases at March 31, 2021 were as follows (in thousands):

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**Notes to Condensed Consolidated Financial Statements (Continued)**  
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	March 31, 2021	
	Operating leases	Finance leases
Remainder of 2021	\$ 16,397	\$ 701
2022	20,026	509
2023	17,267	62
2024	10,392	—
2025	8,540	—
2026 and beyond	32,592	—
Total lease payments	105,214	1,272
Less: interest	(19,487)	(54)
Present value of lease liabilities	<u>\$ 85,727</u>	<u>\$ 1,218</u>

**(18) INCOME TAXES**

The Company's income tax provisions for the three months ended March 31, 2021 and 2020 reflect the Company's estimates of the effective rates expected to be applicable for the respective full years, adjusted for any discrete events, which are recorded in the period that they occur. These estimates are reevaluated each quarter based on the Company's estimated tax expense for the full year. The estimated effective tax rate includes the impact of valuation allowances in various jurisdictions.

**(19) COMMITMENTS AND CONTINGENCIES**

*Liabilities for Royalty Payments to the IIA.* Prior to the ECI Acquisition, ECI had received research and development grants from the Office of the Innovation Authority of the Israeli Ministry of Economics (the "IIA"). The Company assumed ECI's contract with the IIA, which requires the Company to pay royalties to the IIA on proceeds from the sale of products which the Israeli government has supported by way of research and development grants. The royalties for grants prior to 2017 were calculated at the rates of 1.3% to 5.0% of the aggregated proceeds from the sale of such products developed at certain of the Company's R&D centers, up to an amount not exceeding 100% of such grants plus interest at LIBOR. Effective for grants approved in 2017 and subsequently, interest was calculated at the higher of LIBOR plus 1.5% to 2.75%. At March 31, 2021, the Company's maximum possible future royalties commitment, including \$5.2 million of unpaid royalties accrued, was \$42.0 million, including interest of \$2.0 million, based on estimates of future product sales, grants received from the IIA not yet repaid, and management's estimation of products still to be sold.

*Research and Development Grants.* The Company records grants received from the IIA as a reduction to research and development expense. Royalties payable to the IIA are recognized pursuant to sales of related products and are classified as Cost of revenue.

*Litigation.* On November 8, 2018, Ron Miller, a purported stockholder of the Company, filed a Class Action Complaint (the "Miller Complaint") in the United States District Court for the District of Massachusetts (the "Massachusetts District Court") against the Company and three of its former officers (collectively, the "Defendants"), claiming to represent a class of purchasers of Sonus common stock during the period from January 8, 2015 through March 24, 2015 and alleging violations of the federal securities laws. Similar to a previous complaint entitled *Sousa et al. vs. Sonus Networks, Inc. et al.*, which was dismissed with prejudice by an order dated June 6, 2017, the Miller Complaint claims that the Defendants made misleading forward-looking statements concerning Sonus' expected fiscal first quarter of 2015 financial performance, which statements were also the subject of an August 7, 2018 Securities and Exchange Commission Cease and Desist Order, whose findings the Company neither admitted nor denied. The Miller plaintiffs are seeking monetary damages.

After the Miller Complaint was filed, several parties filed and briefed motions seeking to be selected by the Massachusetts District Court to serve as a Lead Plaintiff in the action. On June 21, 2019, the Massachusetts District Court appointed a group as Lead Plaintiffs and the Lead Plaintiffs filed an amended complaint on July 19, 2019. On August 30, 2019, the Defendants

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filed a motion to dismiss the Miller Complaint and, on October 4, 2019, the Lead Plaintiffs filed an opposition to the motion to dismiss. There was an oral argument on the motion to dismiss on February 12, 2020.

In addition, the Company is often a party to disputes and legal proceedings that it considers routine and incidental to its business. Management does not expect the results of any of these actions to have a material effect on the Company's business or 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 Ribbon Communications 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, 2020, which was filed with the U.S. Securities and Exchange Commission on February 26, 2021.*

### Overview

We are a leading global provider of communications technology to service providers and enterprises. We provide a broad range of software and high-performance hardware products, solutions and services that enable the secure delivery of data and voice communications for residential consumers and for small, medium and large enterprises and industry verticals such as finance, education, government, utilities and transportation. Our mission is to create a recognized global technology leader providing increasingly cloud-centric solutions that enable the secure exchange of information, with unparalleled scale, performance and elasticity. Headquartered in Plano, Texas, we have a global presence with research and development and/or sales and support locations in over thirty-five countries around the world.

### Impact of COVID-19 on Our Business

In 2020, a novel strain of the coronavirus (COVID-19) was declared by the World Health Organization to be a global pandemic. The COVID-19 pandemic has had a negative effect on the global economy, disrupting the various manufacturing, commodity and financial markets and increasing volatility, and has impeded global supply chains, including that of our IP Optical Networks operating segment. Continued dampened global economic conditions as a result of the COVID-19 pandemic, especially in areas where a vaccine rollout is slower, such as India, may cause our customers to restrict spending or delay purchases for an indeterminate period of time and consequently cause our revenues to decline. In addition, our ability to deliver our solutions as agreed upon with our customers depends on the ability of our global contract manufacturers, vendors, licensors and other business partners to deliver products or perform services we have procured from them. While, to date, we have not experienced material issues, if the ongoing COVID-19 pandemic impairs the ability of our business partners to support us on a timely basis, or negatively impacts the demand for our customers' other products and services, our ability to perform our customer contracts as well as the demand for our solutions may suffer. In addition, disruptions from the COVID-19 pandemic could include, and with respect to our IP Optical Networks operating segment have included, disruption of logistics necessary to import, export and deliver our solutions. The COVID-19 pandemic continues to limit in some locations the ability of our employees to perform their work due to illness caused by the pandemic or local, state or federal orders requiring employees to remain at home. The degree to which the COVID-19 pandemic ultimately impacts our business, financial position and results of operations will depend on future developments beyond our control, including the effectiveness and timing of any vaccines, the frequency and duration of future waves of infection, the effectiveness and timing of any vaccines, the extent of actions to contain or treat the virus, how quickly and to what extent normal economic and operating conditions can resume, and the severity and duration of the global economic downturn that results from the pandemic.

As a response to the ongoing COVID-19 pandemic, we have continued to implement plans to manage our costs. As part of that plan, we implemented a temporary wage reduction of 10% to 50% applicable to the base salary of most of our employees, which salary reduction ended in 2020. We have eliminated all travel except where necessary to meet customer or regulatory needs and acted to limit discretionary spending. To the extent the business disruption continues for an extended period, additional cost management actions will be considered. Any future asset impairment charges, increases in the allowance for doubtful accounts or restructuring charges could be more likely and will be dependent on the severity and duration of this crisis.

### Reclassification of Amortization of Acquired Intangible Assets

In 2020, we reclassified amounts recorded for amortization of acquired intangible assets in prior presentations from Cost of revenue - product and Sales and marketing to a separate line included in operating expenses in our consolidated statements of operations. Our Management believes this presentation enhances the comparability of our financial statements to industry peers. These reclassifications did not impact our operating income (loss), net income (loss) or earnings (loss) per share for any historical periods. These reclassifications also did not impact our consolidated balance sheets or consolidated statements of cash flows.

This reclassification resulted in reductions to Cost of revenue - product and Sales and marketing of \$8.9 million and \$5.4 million, respectively, reclassified to Amortization of acquired intangible assets for the three months ended March 31, 2020.



The reduction in the three months ended March 31, 2020 to Cost of revenue - product increased our product gross profit as a percentage of product revenue ("product gross margin") and our total gross profit as a percentage of revenue ("total gross margin") by approximately 12 percentage points and 6 percentage points, respectively.

#### **Acquisition of ECI Telecom Group Ltd.**

On March 3, 2020 (the "ECI Acquisition Date"), we completed the acquisition of ECI in accordance with the terms of the Agreement and Plan of Merger, dated as of November 14, 2019, by and among Ribbon, an indirect wholly-owned subsidiary of Ribbon ("Merger Sub"), Ribbon Communications Israel Ltd., ECI, and ECI Holding (Hungary) kft, pursuant to which Merger Sub merged with and into ECI, with ECI surviving such merger as a wholly-owned subsidiary of Ribbon (the "ECI Acquisition"). Prior to the ECI Acquisition Date, ECI was a privately-held global provider of end-to-end packet-optical transport and software-defined networking ("SDN") and network function virtualization ("NFV") solutions for service providers, enterprises and data center operators. Ribbon believes the ECI Acquisition positions the Company for growth and enhances its competitive strengths by expanding its product portfolio beyond solutions primarily supporting voice applications to include data applications and optical networking.

As consideration for the ECI Acquisition, we issued the ECI shareholders and certain others 32.5 million shares of Ribbon common stock with a fair value of \$108.6 million (the "Stock Consideration") and paid \$322.5 million of cash, comprised of \$183.3 million to repay ECI's outstanding debt, including both principal and interest, and \$139.2 million paid to ECI's selling shareholders (the "Cash Consideration"). In addition, ECI shareholders received \$33.4 million from the sale of certain of ECI's real estate assets. Cash Consideration was financed through cash on hand and committed debt financing consisting of a new \$400 million term loan facility and new \$100 million revolving credit facility, which was undrawn at the ECI Acquisition Date. The ECI Acquisition has been accounted for as a business combination and the financial results of ECI have been included in our consolidated financial statements for the periods subsequent to the ECI Acquisition Date.

#### **Sale of Kandy Communications Business**

On December 1, 2020 (the "Kandy Sale Date"), we completed the sale of our Kandy Communications Business to American Virtual Cloud Technologies, Inc. ("AVCT"). AVCT purchased the assets and assumed certain liabilities associated with the Kandy Communications Business, as well as all of the outstanding interests in Kandy Communications LLC, a subsidiary of the Company (the "Kandy Sale"). The assets acquired and liabilities assumed by AVCT in connection with the Kandy Sale were primarily comprised of accounts receivable, property and equipment, trade accounts payable and employee-related accruals.

As sale consideration, AVCT paid us \$45.0 million, subject to certain adjustments, in the form of units of AVCT's securities (the "AVCT Units"), with each AVCT Unit consisting of: \$1,000 in principal amount of AVCT's Series A-1 convertible debentures (the "Debentures"); and (ii) one warrant to purchase 100 shares of AVCT common stock, \$0.0001 par value (the "Warrants"), as consideration for the Kandy Sale. We received 43,778 AVCT Units as sale consideration on the Kandy Sale Date.

The Debentures bear interest at a rate of 10% per annum, which will be added to the principal amount of the Debentures, except upon maturity, in which case accrued and unpaid interest is payable in cash. The entire principal of each Debenture, together with accrued and unpaid interest thereon, is due and payable on the earlier of the May 1, 2023 maturity date or the occurrence of a Change in Control as defined in the definitive purchase agreement, as amended (the "Amended Kandy Agreement"). Each Debenture is convertible, in whole or in part, at any time at our option into that number of shares of AVCT common stock, calculated by dividing the principal amount being converted, together with all accrued and unpaid interest thereon, by the applicable conversion price, initially \$3.45. The Debentures are subject to mandatory redemption if the AVCT stock price is at or above \$6.00 per share for 40 trading days in any 60 consecutive trading day period, subject to the satisfaction of certain other conditions. The conversion price is subject to customary adjustments including, but not limited to, stock dividends, stock splits and reclassifications. At the Company's option, up to \$5.0 million of the Debentures may be redeemed by AVCT at par in the event AVCT raises at least \$50.0 million in its offering of AVCT Units. As of February 19, 2021, the stock price had traded above \$6.00 for 40 days within a 60 consecutive trading day period, and accordingly, the Debentures will be converted to shares of AVCT common stock upon the completion of customary regulatory filings by AVCT.

The Warrants are independent of the Debentures and entitle us to purchase 4,377,800 shares of AVCT common stock at an exercise price of \$0.01 per share. The Warrants expire on December 1, 2025, and were immediately exercisable on the Kandy Sale Date.

We had not redeemed any of the Debentures or exercised any of the Warrants as of March 31, 2021. We are also subject to a lock-up provision which limits our ability to sell any shares of AVCT common stock underlying the Debentures and the Warrants prior to June 1, 2021, except in certain transactions.

We determined that the AVCT Units had a fair value of \$84.9 million at the Kandy Sale Date, comprised of the Debentures with a fair value of \$66.3 million and the Warrants with a fair value of \$18.6 million. The value of the net assets sold to AVCT totaled \$1.3 million, resulting in a gain on the sale of \$83.6 million.

We are calculating the fair value of the Debentures and Warrants at each quarter-end and recording any adjustments to the fair values in Other expense, net. At March 31, 2021 and December 31, 2020, the aggregate fair value of the Debentures and Warrants was \$92.7 million and \$115.2 million, respectively. We recorded the loss of \$23.9 million arising from the decrease in the fair value of the Debentures and Warrants from March 31, 2021 to March 31, 2021 in Other expense, net, in our condensed consolidated statement of operations for the three months ended March 31, 2021. The loss was partially offset by \$1.5 million of interest which was added to the principal of the Debentures. The interest is included in Interest (expense) income, net, in the consolidated statement of operations for the three months ended March 31, 2021. The fair values of the Debentures and Warrants are reported as Investments in our condensed consolidated balance sheets at March 31, 2021 and December 31, 2020.

#### **Operating Segments**

Effective in the fourth quarter of 2020 and in connection with the ECI Acquisition, our CODM began to assess our performance based on the performance of two separate organizations within Ribbon: the Cloud and Edge operating segment ("Cloud and Edge") and the IP Optical Networks operating segment ("IP Optical Networks"). Amounts attributable to IP Optical Networks in the three months ended March 31, 2020 are for the period subsequent to the ECI Acquisition Date. For additional details regarding our operating segments, see Note 13 - Operating Segment Information to our condensed consolidated financial statements.

#### **Financial Overview**

##### *Financial Results*

We reported losses from operations of \$12.6 million and \$28.7 million for the three months ended March 31, 2021 and 2020, respectively.

Our revenue was \$192.8 million in the three months ended March 31, 2021, comprised of \$125.4 million attributable to our Cloud and Edge segment and \$67.4 million attributable to our IP Optical Networks segment. Our revenue was \$158.0 million in the three months ended March 31, 2020, comprised of \$128.0 million attributable to our Cloud and Edge segment and \$30.0 million attributable to our IP Optical Networks segment.

Our gross profit was \$110.5 million in the three months ended March 31, 2021, comprised of \$84.1 million attributable to our Cloud and Edge segment and \$26.4 million attributable to our IP Optical Networks segment. Our gross profit in the three months ended March 31, 2020 was \$90.5 million, comprised of \$78.8 million attributable to our Cloud and Edge segment and \$11.7 million attributable to our IP Optical Networks segment. Our gross profit as a percentage of revenue ("total gross margin") in both three-month periods ended March 31, 2021 and 2020 was 57.3%. Our gross margin attributable to our Cloud and Edge segment in the three months ended March 31, 2021 and 2020 was 67.1% and 61.5%, respectively, and attributable to our IP Optical Networks segment was 39.2% in both the three months ended March 31, 2021 and 2020.

Our operating expenses were \$123.2 million and \$119.3 million in the three months ended March 31, 2021 and 2020, respectively. Operating expenses for the three months ended March 31, 2021 included \$1.2 million of acquisition- and integration-related expense and \$6.0 million of restructuring and related expense. Operating expenses for the three months ended March 31, 2020 included \$12.4 million of acquisition-, disposal- and integration-related expense and \$2.1 million of restructuring and related expense.

We recorded stock-based compensation expense of \$5.1 million and \$3.0 million in the three months ended March 31, 2021 and 2020, respectively. These amounts are included as components of both Cost of revenue and Operating expenses in our condensed consolidated statements of operations.

See "Results of Operations" in this MD&A for a discussion of the changes in our revenue and expenses for the three months ended March 31, 2021 compared to the three months ended March 31, 2020.

## *Restructuring and Cost Reduction Initiatives*

**2020 Restructuring Initiative.** In 2020, we implemented a restructuring plan to eliminate certain positions and redundant facilities, primarily in connection with the ECI Acquisition, to further streamline our global footprint and improve our operations (the "2020 Restructuring Initiative"). In connection with this initiative, we expect to eliminate duplicate functions arising from the ECI Merger and support our efforts to integrate the two companies. The 2020 Restructuring Initiative includes facility consolidations and a reduction in workforce, including three former executives of ECI for whom severance aggregating \$1.1 million was recorded in the three months ended March 31, 2020.

In connection with the 2020 Restructuring Initiative, we recorded restructuring and related expense of \$0.4 million and \$1.1 million in the three months ended March 31, 2021 and 2020, respectively. The amount recorded in the three months ended March 31, 2021 was comprised of \$0.7 million for severance and related costs for approximately 10 employees and \$0.4 million for variable costs related to restructured facilities, offset by a credit of \$0.7 million for changes in estimate related to amounts previously recorded. The amount recorded in the three months ended March 31, 2020 represented severance for three former executives of ECI. We expect that the amounts related to severance will be paid in 2021. We expect to record additional restructuring and related expense approximating \$4 million under the 2020 Restructuring Initiative in the aggregate for severance and planned facility consolidations.

**2019 Restructuring Initiative.** In June 2019, we implemented a restructuring plan to further streamline our global footprint, improve our operations and enhance our customer delivery (the "2019 Restructuring Initiative"). The 2019 Restructuring Initiative includes facility consolidations, refinement of our research and development activities, and a reduction in workforce. In connection with this initiative, we expect to reduce our focus on hardware and hardware-based development over time and to increase our development focus on software virtualization, functional simplicity and important customer requirements. The facility consolidations under the 2019 Restructuring Initiative (the "Facilities Initiative") include a consolidation of our North Texas sites into a single campus, housing engineering, customer training and support, and administrative functions, as well as a reduction or elimination of certain excess and duplicative facilities worldwide. In addition, we are substantially consolidating our global software laboratories and server farms into two lower cost North American sites. We continue to evaluate our properties included in the Facilities Initiative for accelerated amortization and/or right-of-use asset impairment. We expect that the actions under the Facilities Initiative will be completed in 2021.

In connection with the 2019 Restructuring Initiative, we recorded restructuring and related expense of \$5.6 million and \$1.0 million in the three months ended March 31, 2021 and 2020, respectively. The amount recorded in the three months ended March 31, 2021 related to facilities. The amount recorded in the three months ended March 31, 2020 was comprised of \$0.7 million for severance and related costs for five employees and \$0.3 million related to facilities. We expect that we will record nominal, if any, additional restructuring and related expense related to severance and related costs under the 2019 Restructuring Initiative.

**Accelerated Rent Amortization.** Accelerated rent amortization is recognized from the date that we commence the plan to fully or partially vacate a facility, for which there is no intent or ability to enter into a sublease, through the final vacate date. We recorded \$3.4 million and \$0.1 million for accelerated rent amortization in the three months ended March 31, 2021 and 2020, respectively, in connection with our 2019 Restructuring Initiative. These amounts are included as components of Restructuring and related expense. We continue to evaluate our properties included in the Facilities Initiative for accelerated amortization and/or right-of-use asset impairment. We may incur additional future expense if we are unable to sublease other locations included in the Facilities Initiative.

## **Critical Accounting Policies and Estimates**

Management's discussion and analysis of financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates and judgments on historical experience, knowledge of current conditions and beliefs of what could occur in the future given available information. We consider the following accounting policies to be both those most important to the portrayal of our financial condition and those that require the most subjective judgment: revenue recognition, the valuation of inventory, the valuation of the Debentures and Warrants received as sale consideration in connection with the Kandy Sale, warranty accruals, loss contingencies and reserves, stock-based compensation, business combinations, goodwill and intangible assets, accounting for leases, and accounting for income taxes. If actual results differ significantly from management's estimates and projections, there could be a material effect on our condensed consolidated

financial statements. There were no significant changes to our critical accounting policies from January 1, 2021 through March 31, 2021. For a further discussion of our other critical accounting policies and estimates, please refer to our Annual Report on Form 10-K for the year ended December 31, 2020.

## Results of Operations

### Three months ended March 31, 2021 and 2020

**Revenue.** Revenue for the three months ended March 31, 2021 and 2020 was as follows (in thousands, except percentages):

	Three months ended		Increase from prior year	
	March 31, 2021	March 31, 2020	\$	%
Product	\$ 97,889	\$ 75,899	\$ 21,990	29.0 %
Service	94,883	82,083	12,800	15.6 %
Total revenue	\$ 192,772	\$ 157,982	\$ 34,790	22.0 %

Segment revenue for the three months ended March 31, 2021 and 2020 was as follows (in thousands):

	Three months ended March 31, 2021			Three months ended March 31, 2020		
	Cloud and Edge	IP Optical Networks	Total	Cloud and Edge	IP Optical Networks	Total
Product	\$ 50,152	\$ 47,737	\$ 97,889	\$ 54,210	\$ 21,689	\$ 75,899
Service	75,270	19,613	94,883	73,821	8,262	82,083
Total revenue	\$ 125,422	\$ 67,350	\$ 192,772	\$ 128,031	\$ 29,951	\$ 157,982

The increase in our product revenue in the three months ended March 31, 2021 compared to the three months ended March 31, 2020 was primarily the result of the inclusion of approximately \$26 million of higher product revenue attributable to our IP Optical Networks segment in the current year quarter, in part due to the inclusion of IP Optical Networks revenue for the full quarter, compared to only one month of revenue in the three months ended March 31, 2020. The decrease in revenue in our Cloud and Edge segment was primarily attributable to lower sales of our on-premise Enterprise Edge SBC products and the loss of revenue due to the Kandy Sale, partially offset by higher revenue from sales of certain of our software applications.

Revenue from indirect sales through our channel partner program was 21% and 38% of our product revenue in the three months ended March 31, 2021 and 2020, respectively. In the three months ended March 31, 2021, 23% of our product revenue was attributable to sales to enterprise customers, compared to 36% in the three months ended March 31, 2020. These sales were made through both our direct sales team and indirect sales channel partners.

The timing of the completion of customer projects and revenue recognition criteria satisfaction may cause our product revenue to fluctuate from one period 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 months ended March 31, 2021 and 2020 was comprised of the following (in thousands, except percentages):

	Three months ended		Increase from prior year	
	March 31, 2021	March 31, 2020	\$	%
Maintenance	\$ 68,705	\$ 61,068	\$ 7,637	12.5 %
Professional services	26,178	21,015	5,163	24.6 %
	\$ 94,883	\$ 82,083	\$ 12,800	15.6 %

Segment service revenue for the three months ended March 31, 2021 and 2020 was comprised of the following (in thousands):

	Three months ended March 31, 2021			Three months ended March 31, 2020		
	Cloud and Edge	IP Optical Networks	Total	Cloud and Edge	IP Optical Networks	Total
Maintenance	\$ 54,673	\$ 14,032	\$ 68,705	\$ 55,556	\$ 5,512	\$ 61,068
Professional services	20,597	5,581	26,178	18,265	2,750	21,015
Total service revenue	\$ 75,270	\$ 19,613	\$ 94,883	\$ 73,821	\$ 8,262	\$ 82,083

The increase in maintenance revenue in the three months ended March 31, 2021 compared to the three months ended March 31, 2020 was primarily attributable to the inclusion of a full quarter of IP Optical Networks segment sales, compared to only one month of revenue in the three months ended March 31, 2020. The increase in professional services revenue was partially attributable to the inclusion of approximately \$3 million of higher professional services revenue attributable to a full quarter of IP Optical Networks segment sales in the current year quarter, compared to only one month of revenue in the three months ended March 31, 2020, coupled with approximately \$2 million of higher professional services revenue attributable to our Cloud and Edge segment.

The following customers contributed 10% or more of our revenue in the three months ended March 31, 2021 and 2020:

Customer	Three months ended	
	March 31, 2021	March 31, 2020
Verizon Communications Inc.	16%	13%
AT&T Inc.	*	10%

\* Represents less than 10% of total revenue.

Revenue from customers domiciled outside the United States was 59% and 50% of revenue in the three months ended March 31, 2021 and 2020, respectively. Due to the timing of project completions, we expect that the domestic and international components as a percentage of revenue may fluctuate from quarter to quarter and year to year. In addition, as a result of the ECI Acquisition, we expect that the domestic and international revenue as a percentage of revenue in future periods will change, as virtually all of ECI's revenue has historically been recognized from customers outside the United States.

Our deferred product revenue was approximately \$6 million and \$8 million at March 31, 2021 and December 31, 2020, respectively. Our deferred service revenue was approximately \$119 million and \$115 million at March 31, 2021 and December 31, 2020, respectively. Our deferred revenue balance may fluctuate because of the timing of revenue recognition, customer payments, maintenance contract renewals, contractual billing rights and maintenance revenue deferrals included in multiple element arrangements.

We expect that our total revenue in 2021 will increase compared to 2020 as a result of both increased customer spend and continued cross-selling opportunities.

**Cost of Revenue/Gross Margin.** Our cost of revenue consists primarily of amounts paid to third-party manufacturers for purchased materials and services, royalties, inventory valuation adjustments, warranty costs, and manufacturing and services personnel and related costs. Our cost of revenue and gross margins for the three months ended March 31, 2021 and 2020 were as follows (in thousands, except percentages):

	Three months ended		Increase from prior year	
	March 31, 2021	March 31, 2020	\$	%
Cost of revenue				
Product	\$ 44,445	\$ 35,979	\$ 8,466	23.5 %
Service	37,780	31,479	6,301	20.0 %
Total cost of revenue	\$ 82,225	\$ 67,458	\$ 14,767	21.9 %
Gross margin				
Product	54.6 %	52.6 %		
Service	60.2 %	61.6 %		
Total gross margin	57.3 %	57.3 %		

Our segment cost of revenue and gross margins for the three months ended March 31, 2021 and 2020 were as follows (in thousands, except percentages):

	Three months ended March 31, 2021			Three months ended March 31, 2020		
	Cloud and Edge	IP Optical Networks	Total	Cloud and Edge	IP Optical Networks	Total
Product	\$ 13,421	\$ 31,024	\$ 44,445	\$ 21,537	\$ 14,442	\$ 35,979
Service	27,839	9,941	37,780	27,716	3,763	31,479
Total cost of revenue	\$ 41,260	\$ 40,965	\$ 82,225	\$ 49,253	\$ 18,205	\$ 67,458

	Three months ended March 31, 2021			Three months ended March 31, 2020		
	Cloud and Edge	IP Optical Networks	Total	Cloud and Edge	IP Optical Networks	Total
Product	73.2 %	35.0 %	54.6 %	60.3 %	33.4 %	52.6 %
Service	63.0 %	49.3 %	60.2 %	62.5 %	54.5 %	61.6 %
Total gross margin	67.1 %	39.2 %	57.3 %	61.5 %	39.2 %	57.3 %

The increase in our product gross margin in the three months ended March 31, 2021 compared to the three months ended March 31, 2020 was primarily due to margin improvement in our Cloud and Edge segment. The increase in product gross margin of our Cloud and Edge segment was primarily attributable to customer and product mix, and to a lesser extent, the impact of the Kandy Sale.

The decrease in our service gross margin in the three months ended March 31, 2021 compared to the three months ended March 31, 2020 was primarily due to the inclusion of a full quarter of our IP Optical Networks segment's historically lower service gross margin for the full quarter, coupled with higher installation costs.

We believe that our total gross margin will decrease slightly in 2021 compared to 2020, primarily due to higher expected sales from IP Optical Networks, which have historically lower margins due to the higher hardware content in their products.

**Research and Development Expenses.** Research and development expenses consist primarily of salaries and related personnel expenses and prototype costs for the design, development, testing, and enhancement of our products. Research and development expenses for the three months ended March 31, 2021 and 2020 were as follows (in thousands, except percentages):

Three months ended	March 31, 2021	March 31, 2020	Increase from prior year	
	\$	\$	\$	%
	47,410	42,295	5,115	12.1 %

The increase in research and development expenses in the three months ended March 31, 2021 compared to the three months ended March 31, 2020 was primarily attributable to the inclusion of a full quarter of IP Optical Networks expense,

compared to only one month of expense in the three months ended March 31, 2020, which added approximately \$13 million in research and development expenses, principally employee-related. This increase was partially offset by approximately \$8 million of lower expenses in our Cloud and Edge segment, primarily lower employee-related, third-party consulting and infrastructure-related expenses due to our previous cost reduction and restructuring initiatives and the impact of the Kandy Sale.

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 expense in 2021 will increase compared to 2020, primarily due to incremental investment in our IP Optical Networks segment to address the global market opportunity.

**Sales and Marketing Expenses.** Sales and marketing expenses primarily consist 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 months ended March 31, 2021 and 2020 were as follows (in thousands, except percentages):

	March 31, 2021	March 31, 2020	Increase from prior year	
			\$	%
Three months ended	\$ 37,218	\$ 30,971	\$ 6,247	20.2 %

The increase in sales and marketing expenses in the three months ended March 31, 2021 compared to the three months ended March 31, 2020 was primarily attributable to the inclusion of a full quarter of IP Optical Networks expense, compared to only one month of expense in the three months ended March 31, 2020, which added approximately \$10 million in sales and marketing expenses, principally employee-related expenses. This increase was partially offset by approximately \$4 million of lower costs in our Cloud and Edge segment, principally employee- and infrastructure-related, arising from our previous cost reduction and restructuring initiatives.

We believe that our sales and marketing expenses will increase modestly in 2021 compared with 2020, primarily due to higher employee-related expenses and higher costs, assuming COVID-19 restrictions continue to ease.

**General and Administrative Expenses.** General and administrative expenses consist primarily of salaries and related personnel costs for executive and administrative personnel, and audit, legal and other professional fees. General and administrative expenses for the three months ended March 31, 2021 and 2020 were as follows (in thousands, except percentages):

	March 31, 2021	March 31, 2020	Decrease from prior year	
			\$	%
Three months ended	\$ 15,553	\$ 17,205	\$ (1,652)	(9.6)%

The decrease in general and administrative expenses in the three months ended March 31, 2021 compared to the three months ended March 31, 2020 was primarily attributable to the absence in the current year quarter of approximately \$3 million of litigation-related expense in our Cloud and Edge segment, coupled with approximately \$1 million of lower other Cloud and Edge expenses. These reductions were partially offset by higher expense due to the inclusion of a full quarter of IP Optical Networks expense in the current year quarter, compared to only one month of expense in the three months ended March 31, 2020, which added approximately \$2 million in general and administrative expenses, principally employee-related.

We believe that our general and administrative expenses in 2021 will be consistent with our 2020 levels and decline in future years as we realize additional integration synergies.

**Amortization of Acquired Intangible Assets.** Amortization of acquired intangible assets for the three months ended March 31, 2021 and 2020 was as follows (in thousands, except percentages):

	March 31,		Increase from prior year	
	2021	2020	\$	%
Three months ended	\$ 15,823	\$ 14,334	\$ 1,489	10.4 %

The increase in amortization of acquired intangible assets in the three months ended March 31, 2021 compared to the three months ended March 31, 2020 was primarily due to expense related to the inclusion of a full quarter of amortization of the intangible assets arising from the ECI Acquisition, compared to only one month of such amortization in the three months ended March 31, 2020. Amortization of acquired intangible assets is reported separately in the condensed consolidated statements of operations.

**Acquisition-, Disposal- and Integration-Related Expenses.** Acquisition-, disposal- and integration-related expenses include those expenses related to acquisitions that we would otherwise not have incurred. Acquisition- and disposal-related expenses include professional and services fees, such as legal, audit, consulting, paying agent and other fees. Integration-related expenses represent incremental costs related to combining our systems and processes with those of acquired businesses, such as third-party consulting and other third-party services.

We recorded \$1.2 million of acquisition-, disposal- and integration-related expenses in the three months ended March 31, 2021, comprised of \$0.2 million of disposal-related fees incurred in connection with the Kandy Sale and \$1.0 million of integration-related expenses, primarily related to the ECI Acquisition.

We recorded \$12.4 million of acquisition-, disposal- and integration-related expenses in the three months ended March 31, 2020, virtually all of which was for professional fees primarily in connection with the ECI Acquisition.

Acquisition-, disposal- and integration-related expenses are reported separately in the consolidated statements of operations.

**Restructuring and Related Expense.** We have been committed to our streamlining operations and reducing operating costs by closing and consolidating certain facilities and reducing our worldwide workforce. Please see the additional discussion of our restructuring initiatives in the "Restructuring and Cost Reduction Initiatives" section of the Overview of this MD&A.

We recorded restructuring and related expense of \$6.0 million in the three months ended March 31, 2021, comprised of \$5.3 million related to facilities and \$0.7 million for severance and related expenses. We recorded \$2.1 million in the three months ended March 31, 2020, comprised of \$1.8 million for severance and related expenses \$0.3 million related to facilities.

Although we have eliminated positions as part of our restructuring initiatives, we continue to hire in certain areas that we believe are important to our future growth. Restructuring and related expense is reported separately in the condensed consolidated statements of operations.

**Interest Expense, Net.** Interest income and interest expense for the three months ended March 31, 2021 and 2020 were as follows (in thousands, except percentages):

	Three months ended		Increase from prior year	
	March 31, 2021	March 31, 2020	\$	%
Interest income	\$ 1,485	\$ 318	\$ 1,167	367.0 %
Interest expense	(7,304)	(3,713)	3,591	96.7 %
	\$ (5,819)	\$ (3,395)	\$ 2,424	71.4 %

Interest income in the three months ended March 31, 2021 was primarily due to the paid-in-kind interest on the Debentures, which was recorded as an increase to the fair value of the Debentures. Interest expense in the three months ended March 31, 2021 was comprised of interest and debt issuance costs in connection with the 2020 Credit Facility (as defined below), including the write-off of \$2.5 million of capitalized debt insurance costs in connection with the Third Amendment (as defined below), coupled with interest on finance leases.



Interest income in the three months ended March 31, 2020 primarily represents interest earned on the outstanding note receivable arising from litigation that was settled in 2019. Interest expense in the three months ended March 31, 2020 was comprised of interest and debt issuance costs in connection with the 2020 Credit Facility, the write-off of debt issuance costs in connection with the retirement of the 2019 Credit Facility and interest on other borrowings and finance leases.

**Income Taxes.** We recorded provisions for income taxes of \$0.8 million and \$0.2 million in the three months ended March 31, 2021 and 2020, respectively. These amounts reflect our estimates of the effective rates expected to be applicable for the respective full fiscal years, adjusted for any discrete events, which are recorded in the period that they occur. These estimates are reevaluated each quarter based on our estimated tax rate for the full fiscal year. The estimated effective tax rate includes the impact of valuation allowances in various jurisdictions.

#### Off-Balance Sheet Arrangements

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

#### Liquidity and Capital Resources

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

	Three months ended		Change
	March 31, 2021	March 31, 2020	
Net loss	\$ (44,687)	\$ (33,170)	\$ (11,517)
Adjustments to reconcile net loss to cash flows (used in) provided by operating activities	52,700	23,324	29,376
Changes in operating assets and liabilities	(14,225)	49,778	(64,003)
Net cash provided by operating activities	\$ (6,212)	\$ 39,932	\$ (46,144)
Net cash used in investing activities	\$ (5,357)	\$ (309,369)	\$ 304,012
Net cash (used in) provided by financing activities	\$ (14,777)	\$ 335,052	\$ (349,829)

Our cash and restricted cash aggregated \$109 million at March 31, 2021. We had cash and restricted cash of \$136 million at December 31, 2020. These amounts included cash and restricted cash aggregating approximately \$39 million at March 31, 2021 and \$46 million at December 31, 2020 held by our non-U.S. subsidiaries. If we elected to repatriate all excess funds held by our non-U.S. subsidiaries as of March 31, 2021, we do not believe that the amounts of potential withholding taxes that would arise from the repatriation would have a material effect on our liquidity.

We currently maintain the Senior Secured Credit Facilities Credit Agreement (as amended, the "2020 Credit Facility"), by and among us, as a guarantor, Ribbon Communications Operating Company, Inc., as the borrower ("Borrower"), Citizens Bank, N.A. ("Citizens"), as administrative agent, a lender, issuing lender, swingline lender, joint lead arranger and bookrunner, Santander Bank, N.A., as a lender, joint lead arranger and bookrunner, and the other lenders party thereto (each, together with Citizens Bank, N.A. and Santander Bank, N.A., referred to individually as a "Lender", and collectively, the "Lenders"). For additional details regarding the terms of the 2020 Credit Facility, see Note 10 - Debt to our condensed consolidated financial statements.

On March 3, 2021 (the "Third Amendment Effective Date"), we entered into a Third Amendment to Credit Agreement (the "Third Amendment"), which further amended the 2020 Credit Facility. The Third Amendment provided for an incremental term loan facility to us in the original principal amount of \$74.6 million, the proceeds of which were used on the Third Amendment Effective Date to consummate an open market purchase of all outstanding amounts under the Term B Loan. Upon the consummation of the open market purchase, the Term B Loans were assigned to the Borrower and immediately canceled, such that the outstanding amount under the Term A Loan and incremental term loan facility were combined and held by the Lenders (the "2020 Term Loan"). We are required to make quarterly principal payments on the 2020 Term Loan aggregating approximately \$20 million per year in the first three years and \$30 million in the fourth year, with the final payment approximating \$300 million due on the maturity date.

At March 31, 2021, we had an outstanding 2020 Term Loan balance of \$390.6 million at an average interest rate of 3.40% and \$6.4 million of letters of credit outstanding with an interest rate of 2.50%. We were in compliance with all covenants of the 2020 Credit Facility at both March 31, 2021 and December 31, 2020.

We are exposed to financial market risk related to foreign currency fluctuations and changes in interest rates. These exposures are actively monitored by management. To manage the volatility related to the exposure to changes in interest rates, we have entered into a derivative financial instrument. Management's objective is to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flows associated with changes in interest rates. Our policies and practices are to use derivative financial instruments only to the extent necessary to manage exposures. We do not hold or issue derivative financial instruments for trading or speculative purposes.

As a result of exposure to interest rate movements, during March 2020, we entered into an interest rate swap arrangement, which effectively converted our \$400 million term loan with its variable interest rate based upon one-month LIBOR to an aggregate fixed rate of 0.904%, plus a leverage-based margin as defined in the 2020 Credit Facility. The notional amount of this swap as of March 31, 2021 was \$400 million, and the swap matures on March 3, 2025, the same date the 2020 Credit Facility matures.

Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish this objective, we are using an interest rate swap as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income (loss) in the condensed consolidated balance sheet and is subsequently reclassified into earnings in the period that the hedged forecasted transactions affect earnings. During the three months ended March 31, 2021 and 2020, such a derivative was used to hedge the variable cash flows associated with the 2020 Credit Facility. Any ineffective portion of the change in fair value of the derivative would be recognized directly in earnings. However, during the three months ended March 31, 2021 and 2020, we recorded no hedge ineffectiveness.

Amounts reported in accumulated other comprehensive income (loss) related to our derivative will be reclassified to interest expense as interest is accrued on our variable-rate debt. Based upon projected forward rates, we estimate as of March 31, 2021 that \$3.1 million may be reclassified as an increase to interest expense over the next 12 months.

From time to time, we enter into uncommitted and unsecured short-term loans to finance exports in China. We did not have any such short-term loans outstanding at March 31, 2021 and December 31, 2020.

We use letters of credit, performance and bid bonds in the course of our business. At March 31, 2021, we had bank guarantees, performance and bid bonds under various uncommitted facilities (collectively, the "Guarantees") aggregating \$26.9 million, and \$6.4 million of letters of credit under the 2020 Credit Facility (the "Letters of Credit"). At December 31, 2020, we had Guarantees aggregating \$27.0 million and \$5.6 million of Letters of Credit. At both March 31, 2021 and December 31, 2020, we had cash collateral of \$2.7 million supporting the Guarantees, which are included in Restricted cash in our condensed consolidated balance sheets.

In the second quarter of 2019, our Board of Directors (the "Board") approved a stock repurchase program pursuant to which we may repurchase up to \$75 million of the Company's common stock prior to April 18, 2021. Repurchases under the program could be made in the open market, in privately negotiated transactions or otherwise, with the amount and timing of repurchases depending on the market conditions and corporate discretion. This program did not obligate us to acquire any particular amount of common stock and the program could be extended, modified, suspended or discontinued at any time at the Board's discretion. We did not repurchase any shares during the three months ended March 31, 2021 or the year ended December 31, 2020. At both March 31, 2021 and December 31, 2020, we had \$70.5 million remaining under the Repurchase Program for future repurchases. The Repurchase Program expired on April 18, 2021.

#### **Cash Flows from Operating Activities**

Our operating activities used \$6.2 million in the three months ended March 31, 2021 and provided \$39.9 million of cash in the three months ended March 31, 2020.

Cash used in operating activities in the three months ended March 31, 2021 was primarily the result of our net loss and lower accrued expenses and other long-term liabilities, as well as lower accounts payable. These amounts were partially offset by lower accounts receivable higher and other operating assets and higher deferred revenue, coupled with our non-cash expenses, such as the decrease in the fair value of investments recorded in connection with the Kandy Sale, amortization of intangible assets, stock-based compensation, depreciation and amortization of property and equipment, and amortization of debt issuance costs. Our lower accounts receivable was primarily due to the collection in the quarter of seasonally higher amounts outstanding at December 31, 2020. The decrease in accrued expenses and other long-term liabilities was primarily due to the cash payments in the quarter related to our employee cash bonus program.

Cash provided by operating activities in the three months ended March 31, 2020 was primarily the result of lower accounts receivable and inventory, coupled with higher accrued expenses and other long-term liabilities, and deferred revenue. These amounts were partially offset by our net loss, non-cash activities, lower accounts payable and higher other operating assets. Our lower accounts receivable was due to the collection in the quarter of seasonally higher amounts outstanding at December 31, 2019.

#### ***Cash Flows from Investing Activities***

Our investing activities used \$5.4 million of cash in the three months ended March 31, 2021 to purchase property and equipment.

Our investing activities used \$309.4 million of cash in the three months ended March 31, 2020, comprised of \$346.9 million of cash paid as cash consideration for ECI and \$6.0 million of investments in property and equipment. These amounts were partially offset by \$43.5 million of cash proceeds from the sale of land in connection with the ECI Acquisition.

#### ***Cash Flows from Financing Activities***

Our financing activities used \$14.8 million of cash in the three months ended March 31, 2021, primarily due to \$74.6 million of proceeds from the incremental loan obtained in connection with the Third Amendment, which amount was used to consummate an open market purchase of all outstanding amounts under the Term B Loan, \$11.2 million for the payment of tax withholding obligations related to the net share settlement of restricted stock awards upon vesting, and \$77.1 million of principal payments of term debt, including the \$74.6 million payoff of the Term B Loan in connection with the Third Amendment, \$0.8 million of payments of debt issuance costs and \$0.3 million for principal payments of finance leases.

Our financing activities provided \$335.1 million of cash in the three months ended March 31, 2020, primarily due to \$403.0 million of proceeds from term debt, which was comprised of \$400.0 million of proceeds from the 2020 Credit Facility and \$3.5 million of proceeds from short-term loans in China for the financing of certain export activities. These proceeds were partially offset by the repayment of amounts outstanding under the 2019 Credit Facility aggregating \$56.7 million at the time we entered into the 2020 Credit Facility, \$10.6 million for the payment of debt issuance costs in connection with the 2020 Credit Facility, \$0.8 million for the payment of tax withholding obligations related to the net share settlement of restricted stock awards upon vesting and \$0.3 million for principal payments of finance leases.

Based on our current expectations, we believe our current cash and available borrowings under the 2020 Credit Facility will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least twelve months. The rate at which we consume cash is dependent on the cash needs of our future operations. We anticipate devoting substantial capital resources to continue our research and development efforts, to maintain our sales, support and marketing, to complete acquisition-related integration activities and for other general corporate activities. We further believe that our financial resources, along with managing discretionary expenses, will allow us to manage the anticipated impact of the COVID-19 pandemic on our business operations. Looking ahead, we have developed contingency plans to reduce costs further if the situation continues to deteriorate. The challenges posed by the COVID-19 pandemic on our business continue to evolve rapidly. Consequently, we continue to evaluate our financial position in light of future developments, particularly those relating to the COVID-19 pandemic. However, it is difficult to predict future liquidity requirements with certainty, and our cash and available borrowings under the 2020 Credit Facility may not be sufficient to meet our future needs, which would require us to refinance our debt and/or obtain additional financing. We may not be able to refinance our debt or obtain additional financing on favorable terms or at all.

## Recent Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") issued the following accounting pronouncement which became effective for us in 2021, and which did not have a material impact on our condensed consolidated financial statements:

The FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"), which modifies ASC 740 to simplify the accounting for income taxes. ASU 2019-12 addresses the accounting for hybrid tax regimes, tax basis step-up in goodwill obtained in a transaction that is not a business combination, separate financial statements of legal entities not subject to tax, intraperiod tax allocation exception to incremental approach, ownership changes in investments - changes from a subsidiary to an equity method investment, ownership changes in investments - changes from an equity method investment to a subsidiary, interim period accounting for enacted changes in tax law and year-to-date loss limitation in interim period tax accounting.

The FASB issued the following accounting pronouncement, which we do not believe will have a material impact on our condensed consolidated financial statements upon adoption:

In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848): Scope* ("ASU 2021-01"), which refines the scope of Accounting Standards Codification 848, *Reference Rate Reform* ("ASC 848") and clarifies some of its guidance as part of the FASB's monitoring of global reference rate reform activities. ASU 2021-01 permits entities to elect certain optional expedients and exceptions when accounting for derivative contracts and certain hedging relationships affected by changes in the interest rates used for discounting cash flows, for computing variation margin settlements, and for calculating price alignment interest in connection with reference rate reform activities under way in global financial markets (the "discounting transition"). ASU 2021-01 is effective for us prospectively in any period through December 31, 2022 that a modification is made to the terms of the derivatives affected by the discounting transition.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to financial market risk related to foreign currency fluctuations and changes in interest rates. Except as presented below, there have been no material changes in market risk from the information provided in Item 7A. Quantitative and Qualitative Disclosures About Market Risk of our Annual Report on Form 10-K, for the year ended December 31, 2020.

To manage the volatility related to the exposure to changes in interest rates, we have entered into a derivative financial instrument. Our objective is to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flows associated with changes in interest rates. Our policies and practices are to use derivative financial instruments only to the extent necessary to manage exposures. We do not hold or issue derivative financial instruments for trading or speculative purposes.

Amounts reported in accumulated other comprehensive income (loss) related to our derivative will be reclassified to interest expense as interest is accrued on our variable-rate debt. The fair value of our derivative was a liability of \$4.3 million at March 31, 2021. Based upon projected forward rates, we estimate as of March 31, 2021 that \$3.1 million may be reclassified as an increase to interest expense over the next twelve months.

## Item 4. Controls and Procedures

### Disclosure Controls and Procedures

*Evaluation of Disclosure Controls and Procedures.* Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2021.

*Changes in Internal Control over Financial Reporting.* There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended March 31, 2021 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 subject to legal proceedings and claims that have not been fully resolved and that have arisen in the ordinary course of business. Our material legal proceedings as described in Part I, Item 1 of this Form 10-Q in the Notes to Condensed Consolidated Financial Statements in Note 19, "Commitments and Contingencies," under the heading "Litigation."

The outcome of litigation is inherently uncertain. If one or more legal matters were resolved against the Company in a reporting period for amounts above management's expectations, our financial condition and operating results for that reporting period could be materially adversely affected. We settled certain matters during the fourth quarter of 2020 that did not individually or in the aggregate have a material impact on our financial condition or results of operations.

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

#### (c) Issuer Purchases of Equity Securities

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

<u>Period</u>	<u>Total Number of Shares Purchased (1)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)</u>	<u>Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (3)</u>
January 1, 2021 to January 31, 2021	174	\$ 6.79	—	\$ 70,463,973
February 1, 2021 to February 28, 2021	96,553	\$ 10.54	—	\$ 70,463,973
March 1, 2021 to March 31, 2021	1,171,629	\$ 8.70	—	\$ 70,463,973
Total	<u>1,268,356</u>	\$ 8.84	<u>—</u>	\$ 70,463,973

(1) Upon vesting of restricted stock awards, certain of our employees surrender to us a portion of the newly vested shares of common stock to satisfy the tax withholding obligations that arise in connection with such vesting. During the first quarter of 2021, 1,268,356 shares of restricted stock were returned to us by employees to satisfy tax withholding obligations arising in connection with vesting of restricted stock, which shares are included in this column.

(2) On May 2, 2019, we announced a stock repurchase program, under which our Board of Directors has authorized the repurchase of up to \$75 million of our common stock from time to time on the open market or in privately negotiated transactions prior to April 18, 2021 (the "Repurchase Program"). We did not repurchase any shares of our common stock under the program during the first quarter of 2021. At March 31, 2021, we had \$70.5 million remaining under the Repurchase Program for future repurchases. The Repurchase Program expired on April 18, 2021.

(3) Represents amounts available for repurchases under the Repurchase Program.

### Item 5. Other Information

None.

**Item 6. Exhibits**

<b>Exhibit No.</b>	<b>Description</b>
<a href="#">2.1</a>	Agreement and Plan of Merger, dated as of November 14, 2019, by and among the Registrant, Ribbon Communications Israel Ltd., Eclipse Communications Ltd., ECI Telecom Group Ltd. and ECI Holding (Hungary) Korlátolt Felelősségű Társág (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K, filed November 14, 2019 with the SEC).
<a href="#">2.2</a>	Amended and Restated Purchase Agreement, dated December 1, 2020, among Ribbon Communications Inc., Ribbon Communications Operating Company, Inc., Ribbon Communications International Limited and American Virtual Cloud Technologies, Inc. (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K, filed December 7, 2020 with the SEC).
<a href="#">3.1</a>	Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K12B, filed October 30, 2017 with the SEC).
<a href="#">3.2</a>	Certificate of Amendment of the Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed November 28, 2017 with the SEC).
<a href="#">3.3</a>	Amended and Restated By-Laws of the Registrant (incorporated by reference to Exhibit 3.3 to the Registrant's Annual Report on Form 10-K, filed March 8, 2018 with the SEC).
<a href="#">10.1</a>	Third Amendment to Credit Agreement, dated March 3, 2021, among Ribbon Communications Operating Company, Inc., as the borrower, the guarantors party thereto the financial institutions party thereto as lenders, and Citizens Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed March 4, 2021 with the SEC).
<a href="#">10.2</a>	Employment Letter Agreement, dated March 31, 2021, between the Registrant and Steven Bruny (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed April 2, 2021 with the SEC).
<a href="#">10.3</a>	Amended and Restated Employment Letter Agreement, dated March 31, 2021, between the Registrant and Anthony Scarfo (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed April 2, 2021 with the SEC).
<a href="#">10.4</a> *	Employment Agreement, dated May 26, 2020, between the Registrant and Patrick Macken.
<a href="#">10.5</a> *	Severance Agreement, dated May 26, 2020, between the Registrant and Patrick Macken.
<a href="#">10.6</a> *	Employment Agreement, dated July 21, 2020, between the Registrant and Sam Bucci.
<a href="#">10.7</a> *	Severance Agreement, dated September 7, 2020, between the Registrant and Sam Bucci.
<a href="#">31.1</a> *	Certificate of Ribbon Communications Inc. Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<a href="#">31.2</a> *	Certificate of Ribbon Communications Inc. Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<a href="#">32.1</a> #	Certificate of Ribbon Communications Inc. Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
<a href="#">32.2</a> #	Certificate of Ribbon Communications Inc. Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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\* Filed herewith.

# Furnished herewith.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: April 30, 2021

RIBBON COMMUNICATIONS INC.

By: /s/ Miguel A. Lopez

Miguel A. Lopez  
Executive Vice President and Chief Financial Officer (Principal Financial Officer)



May 26, 2020

Patrick Macken  
Via email

Dear Patrick,

On behalf of Ribbon Communications Inc. ("Ribbon") and Sonus Networks, Inc. d/b/a Ribbon Communications Operating Company, Inc. ("RCOC" and Ribbon and RCOC, together with its affiliates who may employ you from time to time, the "Company"), I am pleased to provide you with this written offer of employment (this "Agreement") as Ribbon's Chief Legal Officer and Secretary, effective as of June 1, 2020 (the "Start Date"). This Agreement is entered into as of the date set forth above and shall be effective as of the Start Date.

1. **Compensation.** During your employment with the Company:

(a) *Base Salary.* Your initial base salary will be at the annualized rate of \$400,000 (your base salary, as may be adjusted from time to time, "Base Salary"), less applicable local, state and federal withholdings, paid in accordance with the Company's normal payroll practices. Your Base Salary will be subject to review and adjustment by Ribbon's Board of Directors (the "Board") or Compensation Committee of the Board (the "Committee") in its sole discretion.

(b) *Sign-On Bonus.* You will be entitled to receive a one-time cash bonus of \$50,000, less applicable local, state and federal withholdings, to be paid on the first payroll date following the Start Date, in accordance with the Company's normal payroll practices.

(c) *Annual Bonus.* You will be eligible to receive annual variable cash bonus based on achievement of certain corporate and/or individual objectives ("Annual Bonus"). Subject to achievement of such objectives for the applicable year, the target Annual Bonus shall equal seventy-five percent (75%) of your Base Salary. The Annual Bonus for each fiscal year will be based on the achievement of objectives determined by the Board or the Committee; provided that any Annual Bonus payable with respect to 2020 shall be pro-rated based upon the portion of the year beginning on the Start Date and ending on December 31, 2020. Your Annual Bonus, if any, shall be paid as soon as reasonably practicable following Ribbon's public disclosure of its financial results for the applicable bonus period and the Board's or Committee's approval of the bonus under the then-applicable Ribbon bonus plan, subject to your continued employment with the Company through the date of such payment (except as otherwise set forth in any written agreement by and between the Company and you).

(d) *Relocation Allowance.* Your primary work location will be the Company's offices in Plano, Texas. You agree to relocate your primary residence within twelve (12) months following the Start Date to the Dallas, Texas metropolitan area (the date of your actual relocation, the "Relocation Date"). In



connection with such relocation, you will be entitled to receive a one-time cash allowance payment in an amount such that, after reduction for applicable income tax withholdings, you receive \$50,000 (the "Relocation Allowance") to support your relocation and assist with moving-related expenses, to be paid on the first payroll date after the Start Date. In the event that your employment is terminated by the Company for Cause or as a result of your resignation for any reason, in each case, prior to the first (1<sup>st</sup>) anniversary of the Relocation Date or you fail to timely relocate in accordance with this Section 1(d), you will be required to reimburse the Company for the Relocation Allowance within thirty (30) days following your termination of employment or the date of such failure, as applicable. Any amounts that may be owed to the Company pursuant to this Section 1(d) may, to the extent permitted by law, be withheld from any other payments owed to you from the Company. For purposes of this Section 1(d), "Cause" and "Good Reason" shall have the meanings set forth in the Severance Agreement (as defined below).

(e) *Equity Awards.* Subject to your commencement of employment on the Start Date and approval by the Committee:

- (i) You will, on June 15, 2020 (the "Grant Date"), be granted 150,000 restricted share units (the "Sign On RSUs") that, upon vesting, will be settled in shares of common stock of Ribbon. Subject to your active and continuous employment with the Company through the applicable vesting date, the Sign On RSUs will vest as follows: (A) 1/3<sup>rd</sup> of your Sign On RSUs on the first anniversary of the Grant Date (the "Initial Vesting Date"); and (B) the remaining 2/3<sup>rd</sup> of your Sign On RSUs vesting in four (4) equal installments on each six (6) month anniversary of the Initial Vesting Date. Notwithstanding the foregoing, your grant will be subject to, and you will be required to, enter into a restricted share unit agreement in the Company's applicable form in connection with the grant of the Sign On RSUs.
- (ii) You will, on the Grant Date, be granted performance share units (the "Sign On PSUs") that, upon vesting, will be settled in shares of common stock of Ribbon with a value equal to \$400,000, calculated consistent with such grants made to similarly situated employees of the Company. Notwithstanding the foregoing, your grant will be subject to, and you will be required to, enter into a performance share unit agreement in the Company's applicable form in connection with the grant of the Sign On PSUs.
- (iii) Except as set forth herein, you shall not be entitled to any other equity awards from the Company during the fiscal year ending December 31, 2020. Following the fiscal year ending December 31, 2020, subject to Board or Committee approval, you will be eligible to receive annual equity incentive awards under the Plan at such times, in such amounts and forms, and on such terms as are determined by the Board or Committee, taking into account your role and responsibilities. You will be required to enter into equity award agreement(s) in the Company's then-applicable form in connection with the grant of any future awards described in this Section 1(e)(iii).

2. **Benefits.** During your employment with the Company, you will be entitled to the following benefits:

- (a) You will be entitled to vacation consistent with Company policy and limitations, under which you will initially accrue three (3) weeks of vacation per year beginning on the Start Date;

(b) You will be entitled to participate as an employee of the Company in all health and welfare benefit plans and receive fringe benefits and perquisites generally provided to similarly situated employees of the Company in accordance with applicable Company plan, policy or program, which currently include group health, life and dental insurance, and a 401(k) plan. Notwithstanding the foregoing, the Company retains the right to change, add or cease any particular compensation or benefit for its employees in its sole discretion; and

(c) The Company will reimburse you for all reasonable travel, business development, meals, entertainment and other expenses incurred by you in connection with the performance of your duties and obligations on behalf of the Company. You will comply with such limitations and reporting requirements with respect to expenses as may be established by the Company from time to time and will promptly provide all appropriate and requested documentation in connection with such expenses.

3. Employment Relationship. The Company's obligations under this Agreement are contingent upon your satisfactory completion of our pre-employment reference check and background check investigation and your verification of your identity and employment eligibility. No provision of this Agreement shall be construed to create an express or implied employment contract for a specific period of time. Employment at the Company is considered "at will" and either you or the Company may terminate the employment relationship at any time and for any reason, subject to compliance with the Severance Agreement. As a full-time employee of the Company, you will be expected to devote your full business time and energies to the business and affairs of the Company. As the Company's organization evolves, its reporting structure may change and you may be assigned such other management duties and responsibilities as the Company may determine, in addition to performing duties and responsibilities reflected above.

4. Termination and Eligibility for Severance. The parties acknowledge and agree that they will enter into a severance agreement in substantially the form attached hereto as *Attachment 1* (the "Severance Agreement") on the Start Date. Except as set forth in the Severance Agreement, you will not be entitled to any severance or other termination payments or benefits from the Company or any of its affiliates.

5. Previous Employment. By accepting employment with the Company, you represent the following: (a) any notice period you are required to give or to serve with a previous employer has expired and that by entering into or performing any of your duties for the Company, you will not be in breach of any other obligation binding on you; (b) you will not use or disclose any confidential information in breach of any agreement you may have with a previous employer or any other person; and (c) you are not currently party to or bound by the terms of any non-competition, non-solicitation, confidentiality or non-disclosure agreement or other agreement with a previous employer or any other party which could impair or interfere in any manner with your ability to fully satisfy your obligations and duties hereunder.

6. Confidentiality. The Company considers the protection of its confidential information and proprietary materials to be very important. Therefore, as a condition of your employment, you and the Company will become parties to the Confidentiality, Non-Competition and Assignment of Inventions Agreement, as set forth on *Attachment 2* hereto. This attached agreement must be signed and returned to the Company as soon as practicable following the Start Date.

7. Indemnity. As an executive of the Company, the Company will provide you with an Indemnity Agreement on the Company's standard form.

8. General.

- (a) This Agreement, together with the agreements referenced herein, will constitute our entire agreement as to your employment by the Company and will supersede any prior agreements or understandings, whether in writing or oral (including, without limitation, that certain offer letter by and between RCOC and you, dated as of April 2, 2020).
- (b) This Agreement and your employment and service as a member of the Board are contingent upon the Company's standard onboarding processes, which may include background and reference checks and satisfactory proof of your right to work in the United States. You agree to provide any documentation or information at the Company's reasonable request to facilitate these processes (if any).
- (c) This Agreement may be executed in more than one counterpart, each of which shall be deemed to be an original, and all such counterparts together shall constitute one and the same instrument.
- (d) The provisions of this Agreement are severable and if any one or more provisions may be determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions of this Agreement shall nevertheless be binding and enforceable. Except as modified hereby, this Agreement shall remain unmodified and in full force and effect.
- (e) This Agreement is personal in nature and neither of the parties hereto shall, without the written consent of the other, assign or otherwise transfer this Agreement or its obligations, duties and rights under this Agreement; provided, however, that in the event of the merger, consolidation, transfer or sale of all or substantially all of the assets of the Company, the Company may assign its rights and obligations hereunder and, in the event of such assignment, this Agreement shall, subject to the provisions hereof, be binding upon and inure to the benefit of such successor and such successor shall be solely obligated to discharge and perform all of the promises, covenants, duties and obligations of the Company hereunder.
- (f) All notices shall be in writing and shall be delivered personally (including by courier), by overnight receipted courier service (such as UPS or Federal Express) or sent by certified, registered or express mail, postage prepaid, to the Company at the following address: Ribbon Communications Legal Department, 3605 E. Plano Parkway, Plano, Texas 75074, and to you at the most current address we have in your employment file. Any such notice shall be deemed given when so delivered personally or, if by certified, registered or express mail, postage prepaid mailed, forty-eight (48) hours after the date of deposit in the mail. Any party may, by notice given in accordance with this paragraph to the other party, designate another address or person for receipt of notices hereunder.
- (g) *Arbitration.*
  1. Any controversy, dispute or claim arising out of or relating to this Agreement or the breach hereof which cannot be settled by mutual agreement will be finally settled by binding arbitration in the county where you performed your principal work duties for the Company, under the jurisdiction of the American Arbitration Association or other mutually agreeable alternative arbitration dispute resolution service, before a single

arbitrator appointed in accordance with the arbitration rules of the American Arbitration Association or other selected service, modified only as herein expressly provided. You acknowledge receipt of the applicable AAA Employment Arbitration Rules and Mediation Procedures which may be found at the AAA website here <https://www.adr.org/Rules>. The arbitrator may enter a default decision against any party who fails to participate in the arbitration proceedings.

2. The Federal Arbitration Act, 9 U.S.C. §§ 1 et seq. shall govern the interpretation and enforcement of this arbitration clause. The decision of the arbitrator on the points in dispute will be final, non-appealable and binding, and judgment on the award may be entered in any court having jurisdiction thereof.
  3. The fees and expenses of the arbitration will be borne as provided in the AAA Costs of Arbitration section, and each party will bear the fees and expenses of its own attorney, unless the arbitrator finds that a statutory award of attorneys' fees and/or costs is appropriate.
  4. The parties waive their rights to a class or collective action. The parties agree that claims may not be joined, consolidated, or heard together with claims of any other current or former employee of the Company or other third party.
  5. The parties agree that this Section 8(g) has been included to resolve any disputes between them with respect to this Agreement or your employment, and that this Section 8(g) will be grounds for dismissal of any court action commenced by either party with respect to this Agreement, other than post-arbitration actions seeking to enforce an arbitration award or actions seeking an injunction or temporary restraining order and other than claims for unemployment insurance benefits or workers compensation benefits or other claims which by law cannot be subject to a mandatory arbitration agreement. In the event that any court determines that this arbitration procedure is not binding, or otherwise allows any litigation regarding a dispute, claim, or controversy covered by this Agreement to proceed, the parties hereto hereby waive, to the maximum extent allowed by law, any and all right to a class or collection action or a trial by jury in or with respect to such litigation.
  6. The parties will keep confidential, and will not disclose to any person, except as may be required by law or the rules and regulations of the Securities and Exchange Commission or other government agencies, the existence of any controversy hereunder, the referral of any such controversy to arbitration or the status or resolution thereof; notwithstanding the foregoing, nothing herein shall restrict you from communicating with a government agency or engaging in protected concerted activity that cannot be waived by such an agreement not to disclose.
- (h) This Agreement shall be governed by and interpreted in accordance with the laws of the State of Delaware, without regard to the conflict of laws provisions thereof or of any other jurisdiction.
- (i) The Company is an equal opportunity employer.

9. Acceptance. You may accept the terms and conditions described herein by confirming your acceptance in writing. Please send your countersignature to this Agreement to the Company, or via e-mail to me, which execution will evidence your agreement with the terms and conditions set forth herein.

Sincerely,

/s/ Bruce McClelland

Bruce McClelland

On behalf of Ribbon Communications Inc. and Ribbon Communications Operating Company, Inc.

Accepted as of the first date set forth above by:

/s/ Patrick Macken

Patrick Macken

*Signature Page to Employment Letter*

[US-DOCS\115300498.9]

**Attachment 1**  
**Severance Agreement**

*[see attached]*

Attachment 2

**Confidentiality, Non-Competition, Non-Solicitation  
And Assignment of Inventions Agreement**

In consideration for my employment by Ribbon Communications Inc. ("Ribbon") and Sonus Networks, Inc. d/b/a Ribbon Communications Operating Company, Inc., a wholly owned subsidiary of Ribbon Communications Inc., ("RCOC" and together with Ribbon, the "Company"), the promises the Company makes in this Confidentiality, Non-Competition, Non-Solicitation and Assignment of Inventions Agreement (the "Agreement"), and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the undersigned hereby agrees with the Company as follows:

1. **Recognition of Company's Rights; Non-Disclosure.** I understand and acknowledge that the Company possesses Proprietary Information (defined below), which the Company agrees to disclose to me in exchange for my covenants under this Agreement. I acknowledge and agree that the Company's Proprietary Information (1) is secret and not a matter of knowledge in the industry; (2) gives the Company an advantage over competitors who do not know or use the Proprietary Information; (3) is of such value and nature as to make it reasonable and necessary to protect and preserve the confidentiality and secrecy of the Proprietary Information; and (4) is a valuable and special and unique asset of the Company, the disclosure of which could cause substantial injury and loss of profits and goodwill to the Company. At all times during the term of my employment and thereafter, I will hold in strictest confidence and will not disclose, use, lecture upon, or publish any of the Company's Proprietary Information, directly or indirectly, at any time in the future except as such disclosure, use, or publication may be required in connection with my work for the Company, or unless an executive member of the Company or the Board of Directors of the Company expressly authorizes such disclosure in writing. I understand that notwithstanding the foregoing, nothing in this Agreement prohibits me from communicating with government agencies or participating in government agency investigations or proceedings, and nothing herein limits my right to receive an award for information provided to the Securities and Exchange Commission. I understand that I am not required to notify the Company of any such communications; provided however, that nothing herein authorizes the disclosure of information I obtained through a communication that was subject to attorney client privilege.

I hereby assign to the Company any rights I may have or acquire in the Company's Proprietary Information and recognize that all Proprietary Information shall be the sole property of the Company and its assigns and in any event must be returned to the Company upon my separation date, and that the Company and its assigns shall be the sole owner of all patent rights, copyrights, trade secret rights, and all other rights throughout the world (collectively, "Proprietary Rights") in connection therewith.

The term "Proprietary Information" shall mean trade secrets, confidential knowledge, data, or any other proprietary information of the Company and each of its subsidiaries or affiliated companies. By way of illustration but not limitation, "Proprietary Information" includes (a) inventions, trade secrets, ideas, processes, formulas, data, programs, other works of authorship, know-how, improvements, discoveries, developments, designs, and techniques relating to the business or proposed business of the Company and that were learned or discovered by me during the term of my employment with the Company; (b) information regarding plans for research, development, new products and services, marketing and selling, business plans, budgets and unpublished financial statements, licenses, prices and costs, suppliers, and customers that were learned or discovered by me during the term of my employment with the Company; and (c) information regarding the skills and compensation of other employees of the Company. Proprietary Information does not include information that (i) is or becomes known to the public, other than as a result of my disclosure in violation of this Agreement or of any other person's breach of a legal or contractual obligation to the Company, or (ii) was known by me prior to my employment with the Company and not as a result of anyone else's breach of a legal or contractual obligation.

2 I understand and acknowledge that my non-disclosure obligations described above are subject to the following immunity provisions of the Defend Trade Secrets Act of 2016:



I. **Immunity.** An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that:

(A) is made

- (a) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and
- (b) solely for the purpose of reporting or investigating a suspected violation of law; or

(B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

II. **Use of Trade Secret Information in an Anti-Retaliation Lawsuit.** An individual who files a lawsuit for retaliation by the Company for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual:

(A) files any document containing the trade secret under seal; and

(B) does not disclose the trade secret, except pursuant to court order.

2. **Specialized Training and Knowledge.** During my employment the Company will provide me with specialized training and knowledge regarding the Company's Proprietary Information as well as regarding the Company's specific operations, products and services. I recognize the value of this training and knowledge and agree that it is a material benefit to me. I acknowledge and agree that I have not previously received this training and knowledge from the Company, and that I would not receive this training and knowledge from the Company but for my signing of this Agreement.

3. **Third Party Information.** I understand, in addition, that the Company may from time to time receive from third parties confidential or proprietary information ("Third Party Information") subject to a duty on the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. During the term of my employment and thereafter, I will hold Third Party Information in the strictest confidence and will not disclose (to anyone other than Company personnel who need to know such information in connection with their work for the Company) or use, directly or indirectly, at any time in the future, except in connection with my work for the Company, Third Party Information unless expressly authorized by an executive officer of the Company in writing.

4. **Assignment of Intellectual Property.**

(a) I hereby assign to the Company all my right, title, and interest in and to any and all inventions, original works of authorship (including software source code), trade secrets, designs, developments, improvements, concepts and other intellectual property (and all Proprietary Rights with respect thereto) (collectively, "Intellectual Property"), whether or not patentable or registrable under patent, copyright or similar statutes, that were made or conceived or reduced to practice or learned by me, either alone or jointly with others, (i) at the direction of the Company, (ii) during the performance of my duties of employment, (iii) on Company time, (iv) using Company's equipment, materials, supplies, facilities or Proprietary Information, or (v) that, at the time of conception, authorship, development, or reduction to practice of the Intellectual Property, relate to the business of the Company as conducted (or as proposed to be conducted) or the actual or demonstrably anticipated research or development of the Company, during the period of my employment with the Company. The only Intellectual Property excluded from this provision are those which are set forth in Exhibit A to this Agreement, or the assignment of which are prohibited pursuant to applicable law. I have attached, as Exhibit A, a list specifically describing all inventions, original works of authorship (including software source code), trade secrets, designs, developments, improvements, concepts, and other intellectual property that:

- (i) I made, alone or jointly with others, prior to employment with Company;
- (ii) belong to me, in which I have an ownership interest, or which are owned in whole or in part by another company, organization, or other entity of which I have an ownership interest; and
- (iii) are not assigned to Company (collectively, "Retained Intellectual Property");

provided that if no such list is attached, I represent that there is no such Retained Intellectual Property.

To preclude any possible uncertainty, I have also set forth on Exhibit A attached hereto a complete list of all inventions that I have, alone or jointly with others, conceived, developed, or reduced to practice or caused to be conceived, developed, or reduced to practice prior to commencement of my employment with the Company, in which I have assigned my ownership interest to a third party and that I wish to have excluded from the scope of this Agreement; provided that if no such list is attached, I represent that there are no such inventions. If disclosure of any such invention on Exhibit A would cause me to violate any prior confidentiality agreement, I understand that I am not to list such inventions in Exhibit A but am to describe such invention with as much specificity as possible without violating any prior agreement and state that additional information has been withheld for that reason.

All Intellectual Property assigned to the Company by this Section 4 is hereinafter referred to as "Company Intellectual Property."

(b) If in the course of my employment with the Company, the Company incorporates into any Company product, process or machine any Retained Intellectual Property, I hereby grant and the Company shall have a nonexclusive, royalty-free, irrevocable, perpetual, worldwide license to make, have made, modify, create derivative works of, improve, use, import, export, and sell such Retained Intellectual Property as part of or in connection with such product, process or machine. I agree to and do hereby assign to Company any and all right, title, and interest in and to any and all modifications, improvements, and other derivative works made by or on behalf of Company to any such Retained Intellectual Property that is licensed to Company pursuant to this Section 4, and thus any and all such modifications, improvements, and other derivative works are deemed Company Intellectual Property.

(c) I acknowledge that all original works of authorship that are made by me (solely or jointly with others) during the term of my employment with the Company and that are within the scope of my employment and protectable by copyright ("Works") are "works made for hire," as that term is defined in the United States Copyright Act (17 U.S.C. § 101). If for any reason any such Works or any part thereof would not or cannot be considered a "work made for hire" under applicable law, I agree to and do hereby sell, assign, and transfer to Company, its successors and assigns, the entire right, title and interest in and to the copyright in such Work and any registrations and copyright applications relating thereto and any renewals and extensions thereof, and in and to all works based upon, derived from, or incorporating that Work, and in and to all income, royalties, damages, claims and payments now or hereafter due or payable with respect thereto, and in and to all causes of action, either in law or in equity for past, present, or future infringement based on the copyrights, and in and to all rights corresponding to the foregoing throughout the world. I hereby waive, as against Company, its successors, assigns and licensees, all moral rights which I have or acquire in respect of all such Works. I agree to enforce the moral rights as against others as directed by and at the cost of Company or its successor-in-title of the copyright in the Works.

(d) I acknowledge and agree that the Company is not obligated to commercialize any Company Intellectual Property, and that if I desire to independently commercialize any of said Company Intellectual Property, I must request and obtain a written license from the Company beforehand, which license request may be declined by the Company in its sole discretion.

5. **Enforcement of Proprietary Rights.** During my employment and after my separation from the Company for any reason whatsoever, I agree that I will assist the Company in every proper way to obtain and from time to time enforce United States and foreign Proprietary Rights relating to Company Intellectual Property, including without limitation inventions, in any and all countries. To that end I will execute, verify,

and deliver such documents and perform such other acts (including appearances as a witness) as the Company may reasonably request for use in applying for, obtaining, perfecting, evidencing, sustaining, and enforcing such Proprietary Rights and the assignment thereof. In addition, I will execute, verify, and deliver assignments of such Proprietary Rights to the Company or its designee. My obligation to assist the Company with respect to Proprietary Rights relating to such Company Inventions in any and all countries shall continue beyond the termination of my employment, but the Company shall compensate me at a reasonable rate after my termination for the time actually spent by me at the Company's request on such assistance. In addition, the Company will provide me with reasonable notice of the need for assistance when feasible and agrees to schedule such assistance in such a manner as not to interfere with any alternative employment obtained by me when possible.

In the event the Company is unable for any reason, after reasonable effort, to secure my signature on any document needed in connection with the actions specified in the preceding paragraph, I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents as my agent and attorney in fact, to act for and in my behalf to execute, verify, and file any such documents and to do all other lawfully permitted acts to further the purposes of the preceding paragraph thereon with the same legal force and effect as if executed by me. I hereby waive and quitclaim to the Company any and all claims, of any nature whatsoever, that I now or may hereafter have for infringement of any Proprietary Rights assigned hereunder to the Company.

6. **Obligation to Keep Company Informed.** During the period of my employment, I will promptly disclose to the Company fully and in writing and will hold in trust for the sole right and benefit of the Company any and all Company Intellectual Property, including without limitation inventions. In addition, I will disclose all patent applications filed by me during the three (3) years after termination of my employment with the Company.

7. **Other Activities; Non-Solicitation; Non-Compete; Non-Disparagement.** In consideration of my employment with the Company and terms and conditions of the employment letter to which this Agreement is attached and for the Company's promises to disclose its Proprietary Information to me and to provide me with specialized training and knowledge, and as part of the agreement between the Company and me regarding the Company disclosing its Proprietary Information to me and providing me with specialized training and knowledge, I agree as follows:

(a) During the term of my employment and for a period of one (1) year after my employment with the Company is terminated for any reason whatsoever, I will not directly or indirectly, individually or on behalf of any other person, firm, partnership, corporation, or business entity of any type: (i) hire, solicit, assist, aid, induce, or in any way encourage any then-current employee or consultant of the Company or any affiliate or subsidiary of the Company to terminate his or her employment relationship or consulting relationship with the Company or subsidiary or affiliate; (ii) hire or solicit the services of any former employee or consultant of the Company or any affiliate or subsidiary of the Company whose employment has been terminated for less than six (6) months prior to such hire or solicitation; and/or (iii) induce or attempt to induce any other then-current employee of Company to work for, render services or provide advice to or supply Proprietary Information belonging to Company to any person or entity other than Company.

(b) During the term of my employment, and for a period of one (1) year after my employment with the Company is terminated for any reason whatsoever, I will not, directly or indirectly, for my own benefit or the benefit of any other person or entity, compete with the business of the Company or its successors or assigns in (i) each city, county, state, territory and country in which I provided services or had a material presence or influence at any time during the last two years of my employment or engagement with the Company and (ii) without limiting Section 7(b)(i), Massachusetts, North Carolina, Texas or in any other state in the United States (including, without limitation, all parishes and municipalities of Louisiana set forth on Exhibit B to this Agreement), or in any country in the world where the Company conducts material business or where the Company has taken active steps to commence conducting business; provided that I shall be permitted to acquire a passive stock or equity interest in such an entity provided the stock or other equity interest acquired is not more than one percent (1%) of the outstanding interests in such entity. The term "not compete" as used herein means that I will not directly or indirectly, as an owner, manager, officer,

director, employee, consultant, or stockholder, own, operate, manage, or engage in, or prepare to do any of the foregoing activities with respect to, a business substantially similar to or competitive with the business of the Company or such other business activity in which the Company may substantially engage during the term of my . Notwithstanding anything to the contrary in this Agreement, nothing set forth herein restricts your right to practice law after the end of the term of your employment to the extent such restriction would violate Texas Rule of Professional Conduct.

(c) During the term of my employment, and for a period of one (1) year after my employment with the Company is terminated for any reason, I will not, directly or indirectly, individually or on behalf of any other person, firm, partnership, corporation, or business entity of any type: (i) solicit, contact, call upon, communicate with, or attempt to communicate with, any Customer of the Company in order to provide or offer to provide any products or services that are similar to or otherwise competitive with any products or services provided or that could be provided by the Company; (ii) assist, induce or encourage, or attempt to assist, induce, or encourage any Customer of the Company to reduce or cease doing business with the Company; and/or (iii) influence a Customer to divert its business to any competitor of the Company or otherwise damage or negatively interfere or attempt to damage or negatively interfere with the Company's relationship with a Customer in any way. For purposes of this Section 7(c), "Customer" shall mean any company or business entity that the Company had contact with or performed services for during the last twelve (12) months of my employment with the Company.

(d) I agree that following the termination of my employment with the Company, I will not access the Company's computer systems, download files or any information from the Company's computer systems or in any way interfere, disrupt, modify or change any computer program used by the Company or any data stored on the Company's computer systems.

(e) I agree that if I should later claim any portion of Section 7 is unclear, unenforceable, overbroad or inapplicable to any activity in which I intend to engage, I must notify the Company, in writing, of my position at least fourteen (14) calendar days before engaging in such activity. During the 14-day period, I must meet face-to-face with the Company's authorized representative, in good faith, to discuss resolution of the issue. A mediator may be hired, at the Company's expense, to facilitate the discussion. If I fail or refuse to comply with this conflict resolution provision, I waive my right to challenge the scope, clarity, applicability, breadth or enforceability of Section 7 and all of its restrictions. However, all of my rights will be reserved if I comply with this provision even if no agreement is reached during the conference. Notwithstanding the foregoing provisions of this Section 7, nothing herein shall prevent the Company from seeking and obtaining immediate injunctive relief under Section 10, with or without prior notice to me, from any court of competent jurisdiction, prior to conducting the face-to-face meeting provided for herein.

(f) I agree that during and following the term of my employment with the Company, I will not make any private or public statements or comments about the Company and/or its products, services, practices, directors, officers, agents, representatives, or equity holders in any form, oral, written or electronic, which could constitute libel, slander, or disparagement or which may be considered to be derogatory or detrimental to the name or business reputation of the Company and/or its products, services, practices, directors, officers, agents, representatives, or equity holders; provided, however, that the terms of this subparagraph shall not apply to truthful statements required of me by law and/or communications between me and my spouse, clergy, or attorneys, which are subject to a claim of privilege existing under common law, statute, or rule of procedure.

8. **Third-Party Agreements and Rights.** I represent that I am not bound by the terms of any agreement with any previous employer or other party which restricts in any way my use or disclosure of confidential and proprietary information belonging to a previous employer or another party or which will restrict in any way my performance of any job duties, except as I have disclosed in Exhibit C to this Agreement prior to its acceptance by the Company; provided that, if no Exhibit C is attached, I represent that there are no such third party agreements. I have delivered to the Company true and complete copies of any agreements listed on Exhibit C, if any. I represent to the Company that my execution of this Agreement, my employment with the Company and the performance of my duties for the Company will not violate any obligations I may have to any previous employer or other party. In my work for the Company, I will not

disclose or make use of any information in violation of any agreements with or rights of any previous employer or other party, and I will not bring to the premises of the Company any copies or other tangible embodiments of non-public information belonging to or obtained from any such previous employment or other party.

9. **Return of Company Documents and Equipment.** I agree that when my employment is terminated for any reason or earlier upon the Company's request, I will immediately return all Company owned equipment and documents (paper and electronic) to the Company including, but not limited to, drawings, notes, memoranda, specifications, devices, and formulas, together with all copies thereof, and any other material containing or disclosing any Company Intellectual Property, including without limitation any inventions, Third Party Information, or Proprietary Information of the Company. I further agree that any property, including computers and communication systems, situated on the Company's premises or which I am given or have access to in furtherance of my employment, including disks and other storage media, filing cabinets or other work areas, email communications, and Internet access is subject to inspection by Company personnel at any time for any reason with or without notice.

10. **Legal and Equitable Remedies.** Because my services are personal and unique and because I may have access to and become acquainted with the Proprietary Information of the Company and because any breach of the covenants under Section 7 would likely result in irreparable damage to the Company for which remedies at law would likely be inadequate, the Company shall have the right to enforce this Agreement and any of its provisions by injunction, specific performance, or other equitable relief, without bond (or other security) and without prejudice to any other rights and remedies that the Company may have for a breach of this Agreement.

11. **Authorization to Notify New Employer.** I hereby authorize the Company to notify my new employer about my rights and obligations under this Agreement following the termination of my employment with the Company for any reason whatsoever.

12. **Notices.** Any notices required or permitted hereunder shall be given to the appropriate party at the address specified below. Such notice shall be deemed given upon personal delivery to the appropriate address or if sent by certified or registered mail, three days after the date of mailing.

**If to the Undersigned:**

Most recent address on Company's records.

**If to the Company:**

Ribbon Legal Department  
3605 E. Plano Parkway  
Plano, Texas 75074

13. **General Provisions.**

(a) **Governing Law.** This Agreement will be governed by and construed according to the laws of the state where I carry out my principal duties for the Company without regard to conflicts of law principles of any jurisdiction.

(b) **Interpretation/Advice of Counsel.** All terms and provisions of this Agreement, and the drafting of this Agreement, have been negotiated by the Parties at arm's length and to mutual agreement, with consideration by and participation of each, and no party shall be deemed the scrivener of this Agreement. I acknowledge to the Company that I have been represented by licensed, independent legal counsel in connection with the drafting, negotiation and execution of this Agreement or have had a reasonable opportunity to engage such counsel and voluntarily elected to forgo representation thereby. I further acknowledge and agree that I fully understand all of the terms and provisions of this Agreement, am fully aware of their legal effect, intend that they shall be enforceable against me in accordance with their

terms, and have entered into this Agreement freely based on my own judgment and, to the extent applicable, the advice of my counsel.

(c) Arbitration. The provisions set forth in Section 8(g) of the employment letter to which this Agreement is attached are hereby incorporated by reference in this Agreement and shall apply hereto *mutatis mutandis*.

(d) Entire Agreement. This Agreement sets forth the entire agreement and understanding between the Company and myself relating to the subject matter hereof and supersedes and merges all prior discussions between us with respect to the subject matter hereof. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, will be effective unless in writing signed by the party to be charged. Any subsequent change or changes in my duties, salary, or compensation will not affect the validity or scope of this Agreement. As used in this Agreement, the period of my employment includes any time during which I may be retained by the Company as a consultant or contractor. By executing this Agreement, I also acknowledge that: (i) I am not relying upon any statements, understandings, representations, expectations, or agreements other than those expressly set forth in this Agreement; and (ii) I knowingly waive any claim that this Agreement was induced by any misrepresentation or nondisclosure and any right to rescind or avoid this Agreement based upon presently existing facts, known or unknown. The Parties stipulate that each Party is relying upon these representations and warranties in entering into this Agreement. These representations and warranties shall survive the execution of this Agreement.

(e) Severability.

1. I acknowledge and agree that each agreement and covenant set forth herein constitutes a separate agreement independently supported by good and adequate consideration and that each such agreement shall be severable from the other provisions of this Agreement and shall survive this Agreement.

2. I understand and agree that Sections 1, 4 and 7 of this Agreement are each to be enforced to the fullest extent permitted by law. Accordingly, if a court of competent jurisdiction determines that the scope and/or operation of Section 1, 4 or 7 is too broad to be enforced as written, the Company and I intend that the court should reform such provision to such narrower scope and/or operation as it determines to be enforceable; provided, however, that such reformation applies only with respect to the operation of such provision in the particular jurisdiction with respect to which such determination was made. If, however, Section 1, 4 or 7 is held to be illegal, invalid, or unenforceable under present or future law, and not subject to reformation, then (i) such provision shall be fully severable, (ii) this Agreement shall be construed and enforced as if such provision was never a part of this Agreement, and (iii) the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid, or unenforceable provision or by its severance. In the event a court determines that I have violated one of the post-employment, time-limited restrictions contained in Section 1, 4 or 7, then the time-limitation for the violated restriction shall be extended by one day for each day I am found to be in violation up to a maximum of one year.

(f) Successors and Assigns. This Agreement will be binding upon my heirs, executors, administrators, and other legal representatives and will be for the benefit of the Company, its successors and assigns. I may not assign this Agreement or my obligations hereunder without the prior written consent of the Company, which consent may be withheld in the Company's sole discretion, and any such purported assignment without consent shall be null and void. I agree that the Company may freely assign or otherwise transfer this Agreement, including without limitation to any successor in interest of the Company, whether by way of merger, sale, acquisition or corporate re-organization or any substantially similar process.

(g) Survival. The provisions of this Agreement shall survive the termination of my employment and the assignment of this Agreement by the Company to any successor in interest or other assignee.

(h) Employment. I agree and understand that the nature of my employment, i.e., whether it is “at-will” or for a “term” is not defined by this Agreement but is determined by separate agreement between myself and the Company, if any. Nothing contained herein is intended to modify the nature of my employment relationship with the Company from being either “at-will” or for a “term,” whichever my employment relationship may be.

(i) Waiver. No waiver by the Company of any breach of this Agreement shall be a waiver of any preceding or succeeding breach. No waiver by the Company of any right under this Agreement shall be construed as a waiver of any other right. The Company shall not be required to give notice to enforce strict adherence to all terms of this Agreement.

(j) Headings. The headings to each section or paragraph of this Agreement are provided for convenience of reference only and shall have no legal effect in the interpretation of the terms hereof.

I UNDERSTAND THAT THIS AGREEMENT, INTER ALIA, AFFECTS MY RIGHTS TO INVENTIONS I MAKE DURING MY EMPLOYMENT, RESTRICTS MY RIGHT TO DISCLOSE OR USE THE COMPANY'S PROPRIETARY INFORMATION DURING OR SUBSEQUENT TO MY EMPLOYMENT, PROHIBITS ME FROM COMPETING WITH THE COMPANY FOR TWELVE (12) MONTHS AFTER MY EMPLOYMENT WITH THE COMPANY IS TERMINATED FOR ANY REASON, AND PROHIBITS ME FROM SOLICITING EMPLOYEES AND CUSTOMERS OF THE COMPANY FOR ONE (1) YEAR AFTER MY EMPLOYMENT WITH THE COMPANY IS TERMINATED FOR ANY REASON.

I HAVE READ THIS AGREEMENT CAREFULLY AND UNDERSTAND ITS TERMS. I HAVE COMPLETELY FILLED OUT EXHIBIT A AND EXHIBIT C TO THIS AGREEMENT.

Dated: \_\_\_\_\_, 2020.

Signature of Employee: \_\_\_\_\_

Printed name of Employee: Patrick Macken

Address of Employee: \_\_\_\_\_

ACCEPTED AND AGREED TO BY THE COMPANY:

By: \_\_\_\_\_

Name: Bruce McClelland

Title: Chief Executive Officer, President and Director



**EXHIBIT A**

1. The following is a complete list of all inventions, original works of authorship (including software source code), trade secrets, designs, developments, improvements, concepts, and other intellectual property that I made, conceived, authored, developed, or reduced to practice, alone or jointly with others, prior to my employment by the Company that I desire to be deemed Retained Intellectual Property under Section 4 of the Company's Confidentiality, Non-Competition and Assignment of Inventions Agreement.

No such inventions, original works of authorship (including software source code), trade secrets, designs, developments, improvements, concepts, and other intellectual property to be deemed Retained Intellectual Property.

See below:

Additional sheets attached.

2. The following is a complete list of all inventions, original works of authorship (including software source code), trade secrets, designs, developments, improvements, concepts, and other intellectual property that I made, conceived, authored, developed, or reduced to practice, alone or jointly with others, prior to my employment by the Company in which I have assigned my ownership interest to a third party.

No such inventions, original works of authorship (including software source code), trade secrets, designs, developments, improvements, concepts, and other intellectual property.

See below:

Additional sheets attached.

3. I propose to bring to my employment the following materials and documents of a former employer:

No materials or documents.

See below:

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

**INVENTION DISCLOSURE**

Invention Disclosure #US \_\_\_\_\_

Inventors: 1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

Title of Invention: \_\_\_\_\_

Problem solved by invention: \_\_\_\_\_

Invention Description: \_\_\_\_\_

*Add additional signed, witnessed, and dated sheets and drawings if necessary.*

Has this invention been disclosed outside of the Company? Yes \_\_\_ No \_\_\_

Inventor Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Witness Signature: \_\_\_\_\_ Date: \_\_\_\_\_

**EXHIBIT B**

**Louisiana Parishes and Municipalities**

Acadia, Allen, Ascension, Assumption, Avoyelles, Beauregard, Bienville, Bossier, Caddo, Calcasieu, Caldwell, Cameron, Catahoula, Claiborne, Concordia, DeSoto, East Baton Rouge, East Carroll, East Feliciana, Evangeline, Franklin, Grant, Iberia, Iberville, Jackson, Jefferson, Jefferson Davis, Lafayette, Lafourche, LaSalle, Lincoln, Livingston, Madison, Morehouse, Natchitoches, Orleans, Ouachita, Plaquemines, Pointe Coupee, Rapides, Red River, Richland, Sabine, St. Bernard, St. Charles, St. Helena, St. James, St. John the Baptist, St. Landry, St. Martin, St. Mary, St. Tammany, Tangipahoa, Tensas, Terrebonne, Union, Vermilion, Vernon, Washington, Webster, West Baton Rouge, West Carroll, West Feliciana, and Winn.

**EXHIBIT C**

Please either list or attach any agreements with any previous employer or other party referred to in Section 8 above which restrict in any way your use or disclosure of information belonging to a previous employer or another party or which will restrict in any way your performance of any job duties at the Company:

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**Severance Agreement**

THIS SEVERANCE AGREEMENT (the "*Agreement*") is entered into as of May 26, 2020, and effective as of the Start Date (as defined in the Employment Letter), between Ribbon Communications Inc. ("*Ribbon*"), Sonus Networks, Inc. d/b/a Ribbon Communications Operating Company, Inc. ("*RCOC*" and together with Ribbon, the "*Company*") and Patrick Macken ("*Executive*" or "*you*").

1. Definitions. The following capitalized terms used herein shall have the following meanings:

- (a) "*Annual Bonus*" means the annual variable cash compensation you are eligible to receive as determined from time to time by the Company, whether acting through Ribbon's Board of Directors (the "*Board*"), a committee thereof or otherwise, based on the achievement of certain Ribbon Entity and/or individual performance objectives.
- (b) "*Base Pay*" means your annual base compensation, as determined from time to time by the Company, whether acting through the Board, a committee thereof or otherwise, regardless of whether all or any portion thereof may be deferred under any deferred compensation plan or program of the Company.
- (c) "*Cause*" means termination of your employment by the Company upon the occurrence of any of the following: (i) your commission of bribery in violation of the Code of Conduct (or similar policy) of the Company or other Ribbon Entity employing you at the relevant time and/or local law and regulation including, without limitation, the UK Bribery Act, (ii) your engaging in acts in the course of your employment with any Ribbon Entity that constitute theft, fraud or embezzlement, (iii) your intentional or negligent misconduct which materially and adversely affects any Ribbon Entity and which is not cured (to the extent curable) within thirty (30) days following your receipt of written notice of such misconduct, (iv) your unauthorized disclosure of proprietary information of a confidential nature relating to any Ribbon Entity, which unauthorized disclosure has a material and adverse effect on any Ribbon Entity, (v) your material violation of any Ribbon Entity policy, agreement or procedure which is not cured (to the extent curable) within thirty (30) days following receipt of written notice of such violation, (vi) your excessive absenteeism, (vii) your material neglect of duty, (viii) your failure to devote substantially all of your working time to the business of the Ribbon Entities or to otherwise perform the duties of your position to the satisfaction of the Board (or your direct supervisor) which is not cured (to the extent curable) within thirty (30) days following receipt of written notice of such failure, (ix) your insubordination or failure to perform and carry out any directive of the Board (or your direct supervisor), (x) your abuse of alcohol, or unlawful use (including being under the influence) or possession of illegal drugs, at the premises of any Ribbon Entity or otherwise while performing (or holding yourself out as performing) services for or on behalf of any Ribbon Entity, (xi) your commission of any act that has resulted in (or could reasonably be expected to result in) conviction of a felony or crime involving moral turpitude or pleading "no contest" to a felony charge or other criminal charge involving moral turpitude, (xii) your failure to cooperate with any of the Ribbon Entities and/or their professional advisors in any investigation (whether internal or external) or any formal legal or investigative proceeding, or (xiii) your engagement in any conduct, including any violation of applicable law, that may reasonably result in material and adverse injury to the business or reputation of any Ribbon

Entity. The determination of whether a termination of your employment is for Cause shall be made by the Board (or its designee) in its sole discretion.

(d) “*Change in Control*” shall have the meaning set forth in the Incentive Award Plan. Notwithstanding the foregoing, if a Change in Control constitutes a payment or benefit event with respect to any payment or benefit hereunder that provides for the deferral of compensation that is subject to Section 409A, to the extent required to avoid the imposition of additional taxes under Section 409A, such transaction or event will not be deemed a Change in Control unless the transaction qualifies as a “change in control event” within the meaning of Section 409A.

(e) “*Change in Control Protection Period*” means the period beginning on the date of the consummation of the Change in Control and ending on the first anniversary of such Change in Control.

(f) “*Code*” means the Internal Revenue Code of 1986, as amended.

(g) “*Date of Termination*” means the date of termination of your employment for any reason.

(h) “*Disability*” means an illness (mental or physical) or incapacity, which results in you being unable to perform your duties as an employee of the Company for a period of one hundred eighty (180) days, whether or not consecutive, in any twelve (12) month period.

(i) “*Employment Letter*” means that certain Employment Letter Agreement, by and between you and the Company, dated May 26, 2020.

(j) “*Equity Awards*” means all stock options, restricted stock units, performance stock units and such other equity-based awards granted pursuant to the Incentive Award Plan. For the avoidance of doubt, “Equity Awards” shall not include any cash or cash-based awards granted pursuant to the Incentive Award Plan.

(k) “*Good Reason*” means:

- i. At any time other than the Change in Control Protection Period, the occurrence of one or more of the following conditions without your prior written consent: (A) a material reduction in your then-effective Base Pay (excluding any such reduction in connection with across-the-board Base Pay reductions for all or substantially all similarly situated employees), or (B) the relocation of your primary place of employment to a location more than 30 miles from [ ]; or
- ii. during the Change in Control Protection Period, the occurrence of one or more of the following conditions without your prior written consent: (A) a material reduction in your then-effective Base Pay or target Annual Bonus, (B) the relocation of your primary place of employment to a location more than 30 miles from your then-present work location, (C) a material diminution in your authority, duties or responsibilities for the Ribbon Entities, or (D) any material breach of any written agreement by and between any Ribbon Entity and you;

provided that, in each case of subsections (i) and (ii), you shall not have Good Reason unless and until (x) you give the Company written notice describing the occurrence of

Good Reason within 30 days after such occurrence first occurs, (y) such occurrence is not corrected by the Company within 30 days after the Company's receipt of such notice, and (z) you terminate employment no later than 30 days after the expiration of such 30-day correction period.

- (l) "Incentive Award Plan" means Ribbon Communications Inc. 2019 Incentive Award Plan, as may be amended from time to time (or any successor equity incentive plan of Ribbon).
  - (m) "Restrictive Covenants Agreement" shall mean the Confidentiality, Non-Competition and Assignment of Inventions Agreement, as described in Section 6 of the Employment Letter.
  - (n) "Ribbon Entities" means Ribbon Communications Inc. and its direct and indirect subsidiaries.
  - (o) "Section 409A" has the meaning set forth in Section 7 of this Agreement.
2. Term of Agreement. The term of this Agreement will commence as of the Effective Date and shall continue in effect until the earlier of (a) the third anniversary of the Effective Date; and (b) the date on which all payments or benefits required to be made or provided hereunder have been made or provided in their entirety (the "Initial Term"). Notwithstanding the foregoing, (i) on the third anniversary of the Effective Date and on each subsequent anniversary thereafter, this Agreement shall automatically renew and extend for a period of twelve (12) additional months (each such twelve (12)-month period, collectively with the Initial Term, the "Term") unless written notice of non-renewal is delivered from either party to the other not less than six (6) months prior to the applicable date on which extension of the then-existing Term would occur, and (ii) in no event will the Term end prior to the first anniversary of the date of consummation a Change in Control.
3. Termination and Eligibility for Severance.
- i. Accrued Benefits. Upon any termination of your employment, you will be paid (i) any and all earned and unpaid portion of your Base Pay through the Date of Termination; (ii) any accrued but unused vacation pay owed to you in accordance with Company practices up to and including the Date of Termination; and (iii) any allowable and unreimbursed business expenses incurred through the Date of Termination that are supported by appropriate documentation in accordance with the Company's applicable expense reimbursement policies. Hereafter, items (i) through (iii) in this Section 3 are referred to as "Accrued Benefits". If termination of your employment is for any reason other than (A) by the Company without Cause (other than due to death or Disability) or (B) by you for Good Reason, you will be entitled to receive only the Accrued Benefits.
  - i. Severance Payment. Subject to Sections 3(c), 6 and 7 of the Agreement:
    - 1. If the Company terminates your employment without Cause (other than as a result of your death or Disability) or if you terminate your employment with Good Reason, in each case, outside of the Change in Control Protection Period, then, in addition to the Accrued Benefits, the Company will provide you the following severance and related post-termination benefits:

a. The Company shall, during the period beginning on the Date of Termination and ending on the twelve (12)-month anniversary of the Date of Termination, pay to you an amount equal to (A) twelve (12) months of your Base Pay as in effect immediately prior to the Date of Termination (or, in the case of termination by you with Good Reason due to material reduction in Base Pay, your Base Pay in effect immediately prior to such reduction) (the “*Non-CIC Severance Payment*”), and (B) an amount equal to the Annual Bonus you would have received, if any, had you remained employed through the end of the fiscal year in which the Date of Termination occurs, prorated based on the number of days you worked during such fiscal year and calculated based on actual achievement of the Ribbon Entity performance targets relating to such Annual Bonus (and assuming any individual, personal performance targets are achieved at target) (the “*Pro Rata Bonus*”);

b. The Company shall pay you an amount equal to the aggregate sum of the Company’s share of medical, dental and vision insurance premiums for you and your dependents for the period commencing on the Date of Termination and ending on the first anniversary thereof (as if you had remained employed and based on coverage as of immediately prior to termination). For the avoidance of doubt, if immediately prior to the termination of your employment you were required to contribute towards the cost of premiums as a condition of receiving such insurance, the payment hereunder will not cover any such contributions. The cash payment provided for in this Section 3(b)(i)(2) or Section 3(b)(ii)(2), as applicable, is referred to herein as the “*Continued Benefit Payment*”;

c. Unless otherwise explicitly set forth in the award agreement for the applicable Equity Award, each outstanding unvested Equity Award held by you immediately prior to the Date of Termination that is subject to vesting based solely upon your continuous service with the Company (collectively, “*Time-Based Equity Awards*”) that would have vested during the twelve (12)-month period following the Date of Termination had you remained employed shall remain outstanding and on the Severance Commencement Date, (I) to the extent you have timely executed and not revoked the Release Agreement (as defined below), such Time-Based Equity Awards shall automatically vest and become exercisable (as applicable) or (II) to the extent you have not timely executed or have revoked the Release Agreement, such Time-Based Equity Awards will be forfeited for no consideration; and

d. Unless otherwise explicitly set forth in the award agreement for the applicable Equity Award, each outstanding unvested Equity Award held by you immediately prior to the Date of Termination that is subject to vesting in whole or in part based on achievement of performance objective(s) (collectively, “*Performance-Based Equity Awards*”) and is eligible to vest based on achievement of such performance objective(s) for performance periods ending prior to the Date of Termination or in which the Date of Termination occurs shall remain outstanding and on the Severance Commencement Date, (I) to the extent you have timely executed and not revoked the Release Agreement, (x) the portion of such unvested Performance-Based Equity Award that is eligible to vest based on achievement of performance objective(s) for performance periods ending prior to the Date of Termination shall remain eligible to vest and be settled (as applicable) in accordance with its terms based on actual performance, without regard for any requirement of continued employment, and (y) a prorated amount of the



portion of such unvested Performance-Based Equity Award that is eligible to vest based on achievement of performance objective(s) for the applicable performance periods in which the Date of Termination occurs shall remain eligible to vest through the end of the fiscal year in which the Date of Termination occurs and be settled (as applicable) in accordance with its terms as if the last day of such fiscal year was the last day of the applicable performance period(s), based on performance targets established by the Company and actual performance through the end of such fiscal year, without regard for any requirement of continued employment, or (II) to the extent you have not timely executed or have revoked the Release Agreement, such Performance-Based Equity Awards will be forfeited for no consideration. The Company shall prorate the portion of each unvested Performance-Based Equity Award described in subsection (y) above based on the number of days of your employment during the performance period as compared to the total number of days in such performance period, with such prorated portion of such Performance-Based Equity Awards eligible to vest and become exercisable at the end of the fiscal year in which the Date of Termination occurs, based on the actual level of achievement of such performance objective(s) as of end of the applicable fiscal year (with the applicable performance objective(s) prorated for any shortened performance period). Any such determination by the Company shall be final and binding on all persons (including, without limitation, you). Notwithstanding anything to the contrary herein, settlement upon vesting (if any) of such Performance-Based Equity Awards described in subsection (ii) shall occur no later than March 15 of the calendar year immediately following the calendar year of the Date of Termination (or otherwise in compliance with Section 409A as required by their terms). For the avoidance of doubt, any Performance-Based Equity Award with respect to which performance vesting conditions have been determined to be fully satisfied prior to or as of the Date of Termination (or, which, in connection with a Change in Control or otherwise, was converted into an Equity Award solely subject to time-based vesting) shall be deemed to be a Time-Based Equity Award for purposes of this Agreement.

e. Subject to the provisions of Sections 3(c) and 7, (I) the Non-CIC Severance Payment shall be paid in equal installments during the twelve (12)-month period following the Date of Termination in accordance with the Company's normal payroll practices beginning on the first payroll date following the 60th day following the Date of Termination (such payroll date, the "*Severance Commencement Date*"), and with the first installment including any amounts that would have been paid had the Release Agreement been effective and irrevocable on the Date of Termination, (II) the Pro Rata Bonus shall be paid at the same time as annual bonus payments are made to similarly situated employees of the Company for the applicable year, but in no event shall be paid earlier than January 1 or later than December 31 of the calendar year following the year of termination, and (III) the Continued Benefit Payment shall be paid in lump sum on the Severance Commencement Date, in each case, less applicable federal, state and other applicable withholdings.

a. If the Company terminates your employment without Cause (other than as a result of your death or Disability) or if you terminate your employment with Good Reason, in each case, during the Change in Control Protection Period, then, in addition to the Accrued Benefits, the Company will provide you the following severance and related post-termination benefits:

a. The Company shall pay to you a cash lump sum payment in an amount equal to (A) the sum of twelve (12) months of your Base Pay as in effect immediately prior to the Date of Termination and your target Annual Bonus for the calendar year in which the Date of Termination occurs (or in the case of termination by you with Good Reason due to material reduction in Base Pay and/or target Annual Bonus, your Base Pay and/or target Annual Bonus in effect immediately prior to such reduction, as applicable) (the “CIC Severance Payment”), and (B) the Pro Rata Bonus;

b. The Company shall pay you an amount equal to the aggregate sum of the Company’s share of medical, dental and vision insurance premiums for you and your dependents for the period commencing on the Date of Termination and ending on the first anniversary thereof (as if you had remained employed and based on coverage as of immediately prior to termination). For the avoidance of doubt, if immediately prior to the termination of your employment you were required to contribute towards the cost of premiums as a condition of receiving such insurance, the payment hereunder will not cover any such contributions; and

c. Unless otherwise explicitly set forth in the award agreement for the applicable Equity Award, any unvested Equity Awards outstanding immediately prior to the Date of Termination shall automatically become fully vested and exercisable (as applicable) as of the Date of Termination; provided that any Performance-Based Equity Award shall vest assuming a target level of achievement for each applicable performance objective(s).

d. Subject to the provisions of Sections 3(c) and 7, (I) the CIC Severance Payment shall be made in a lump sum on the Severance Commencement Date, (II) the Pro Rata Bonus shall be paid at the same time as annual bonus payments are made to similarly situated employees of the Company for the applicable year, but in no event shall be paid earlier than January 1 or later than December 31 of the calendar year following the year of termination, and (III) the Continued Benefit Payment shall be paid in lump sum on the Severance Commencement Date, in each case, less applicable federal, state and other applicable withholdings.

ii. Release. Any amounts payable pursuant to Section 3(b)(i) or Section 3(b)(ii), as applicable (collectively, the “Severance Benefits”), shall be in lieu of notice or any other severance benefits to which you might otherwise be entitled from any Ribbon Entity. Notwithstanding anything to the contrary herein, the Company’s provision of the Severance Benefits will be contingent upon your timely execution and non-revocation of a general waiver and release of claims agreement in a form to be provided by the Company (a “Release Agreement”), subject to the terms set forth herein. You will have twenty-one (21) days (or, in the event that your termination of employment is “in connection with an exit incentive or other employment termination program” (as such phrase is defined in the Age Discrimination in Employment Act of 1967, as amended), forty-five (45) days) following your receipt of the Release Agreement to consider whether or not to accept it. If the Release Agreement is signed and delivered by you to the Company, you will have seven (7) days from the date of delivery to revoke your acceptance of such agreement (the “Revocation Period”). If you do not timely execute or if you subsequently revoke the Release Agreement, you shall be required to pay to the Company, immediately upon demand therefor, the amount of any payments or benefits you received in connection with any portion of Equity Awards that was eligible to vest pursuant to Section 3(b) (including, without limitation, proceeds received or

realized by you from the sale or surrender of any shares underlying such Equity Awards in connection with applicable tax withholding).

iii. The provisions of this Section 3 shall supersede in their entirety any severance payment provisions in any severance plan, severance policy, severance program or other severance arrangement maintained by the Company or any of its affiliates (or any of their respective predecessors). The Company shall have no further obligation to you in the event of termination of your employment for any reason at any time, other than those obligations specifically set forth in this Section 3.

4. Resignation from Board, Officer and Other Positions. Unless otherwise determined by the Board, in the event that your employment is terminated for any reason (whether during or after the Term), you shall be deemed, effective as of the date of such termination, to resign (a) if a director, from the Board or similar board of directors of any direct or indirect parent, subsidiary or affiliate of the Company and (b) from any position with the Company or any direct or indirect parent, subsidiary or affiliate of the Company, including as an officer of the Company or any of its direct or indirect parents, subsidiaries or affiliates.

5. Mitigation. You shall not be required to mitigate the amount of any payment or benefit provided for in Section 3 by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in Section 3 be reduced by any compensation earned by you as the result of employment by another employer or by retirement benefits after the Date of Termination or otherwise, subject to Section 6; provided, however, that any loans, advances or other amounts owed by you to the Company may be offset by the Company and its affiliates against amounts payable to you under Section 3 to the greatest extent permitted by applicable law.

6. Restrictive Covenants and Other Conditions. You acknowledge and agree that you are a party to that certain Confidentiality, Non-Competition and Assignment of Inventions Agreement, dated as of May 26, 2020, and such agreement remains in full force and effect (the "*Restrictive Covenant Agreement*"). In the event of (a) your material breach of the Restrictive Covenant Agreement, (b) your engagement in any act or omission after the Date of Termination that would have constituted "Cause" under subsections (ii) through (iv), (xii) or (xiii) of the definition thereof (without regard for any cure periods therein) for termination of your employment had you remained employed after the Date of Termination, or (c) the Company's determination in good faith that facts or circumstances existed on the Date of Termination that, if known by the Company on the Date of Termination, would have constituted Cause, the Company shall be entitled to cease all payments and benefits pursuant to Section 3(b), all Equity Awards that vested pursuant to Section 3(b) and any shares of Company stock you received with respect thereto shall immediately be forfeited, without payment therefor, and you shall be required to pay to the Company, immediately upon demand therefor, the amount of any proceeds realized by you from the sale of any such shares.

7. Section 409A Tax Implications. Any payments or benefits required to be provided under this Agreement that is subject to Section 409A of the Code shall be provided only after the date of your "separation from service" with the Company as defined under Section 409A of the Code and the regulations and guidance issued thereunder (collectively, "*Section 409A*"). The following rules shall apply with respect to distribution of the payments and benefits, if any, to be provided to you under this Agreement:

(a) To the extent applicable, this Agreement shall be interpreted in accordance with Section 409A. Each installment of the payments and benefits provided hereunder shall be treated as a separate "payment" for purposes of Section 409A. If and to the extent (i) any portion of any payment, compensation or other benefit provided to you pursuant to this Agreement in connection with your termination of employment constitutes "nonqualified deferred compensation" within the meaning of Section 409A and (ii) you are a specified employee as defined in Section 409A(a)(2)(B)(i) of the Code, in each case as determined by the Company in accordance with its procedures, by which determinations you agree that you are bound, such portion of the payment, compensation or other benefit shall not be paid until the first business day that is six (6) months plus one (1) day or more after the date of "separation from service" (as determined under Section 409A) (the "*New Payment Date*"), except such earlier date as Section 409A may then permit. The aggregate of any payments that otherwise would have been paid to you during the period between the date of separation from service and the *New Payment Date* shall be paid to you in a lump sum on such *New Payment Date*, and any remaining payments will be paid on their original schedule.

1. The Company and its employees, agents and representatives make no representations or warranty and shall have no liability to you or any other person if any provisions of or payments, compensation or other benefits under this Agreement are determined to constitute nonqualified deferred compensation subject to Section 409A but do not satisfy the conditions of that section. Notwithstanding any provision of this Agreement to the contrary, in the event that following the Effective Date the Board determines that this Agreement may be subject to Section 409A, the Board may (but is not obligated to), without your consent, adopt such amendments to this Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Board determines are necessary or appropriate to (i) exempt this Agreement from Section 409A and/or preserve the intended tax treatment of the benefits provided with respect to this Agreement or (ii) comply with the requirements of Section 409A and thereby avoid the application of any penalty taxes under Section 409A.

8. Section 280G. If any payment or benefit you would receive or retain under this Agreement, when combined with any other payment or benefit you receive or retain in connection with a "change in control event" within the meaning of Section 280G of the Code and the regulations and guidance thereunder ("*Section 280G*"), would (a) constitute a "parachute payment" within the meaning of Section 280G of the Code, and (b) but for this Section 8, be subject to the excise tax imposed by Section 4999 of the Code (the "*Excise Tax*"), then such Payment shall be either payable in full or in such lesser amount as would result in no portion of the Payment being subject to the Excise Tax, whichever of the foregoing amounts, taking into account the applicable federal, state and local employment taxes, income taxes, and the Excise Tax, results in your receipt, on an after-tax basis, of the greater amount of the Payment notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. All determinations required to be made under this Section 8, including whether and to what extent the Payment shall be reduced and the assumptions to be utilized in arriving at such determination, shall be made by a nationally recognized certified public accounting firm or consulting firm experience in matters regarding Section 280G of the Code as may be designated by the Company (the "*280G Advisor*"). The 280G Advisor shall provide detailed supporting calculations both to you and the Company at such time as is requested by the Company. All fees and expenses of the 280G Advisor shall be borne solely by the Company. Any final determination by the 280G Advisor shall be binding upon you and the Company. For purposes of making the calculations required by this Section 8, the 280G Advisor may make reasonable assumptions and

approximations concerning applicable taxes and may rely on reasonable, good-faith interpretations concerning the application of Sections 280G and 4999 of the Code.

9. Withholding. The Company shall be entitled to withhold from any amounts payable under this Agreement any federal, state, local or foreign withholding or other taxes or charges that the Company is required to withhold. The Company shall be entitled to rely on an opinion or advice of counsel if any questions as to the amount or requirement of withholding arise.

10. Miscellaneous.

- (a) This Agreement, together with any written employment agreement or offer letter to which you may be a party and any agreements referenced herein, will constitute our entire agreement as to your employment by the Company and will supersede any prior agreements or understandings, whether in writing or oral, with respect to the subject matter hereof, other than with respect to any agreements between you and the Company with respect to confidential information, intellectual property, non-competition, non-solicitation, non-disparagement, nondisclosure of proprietary information, inventions and injunctive relief, including, without limitation, the Restrictive Covenant Agreement; provided that Section 10(f) supersedes and replaces any prior dispute resolution provisions in any other prior agreement between you and the Company (including, without limitation, the Restrictive Covenant Agreement).
- (b) This Agreement may be executed in more than one counterpart, each of which shall be deemed to be an original, and all such counterparts together shall constitute one and the same instrument.
- (c) The provisions of this Agreement are severable and if any one or more provisions may be determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions of this Agreement shall nevertheless be binding and enforceable and except to the extent necessary to reform or delete such illegal or unenforceable provision, this Agreement shall remain unmodified and in full force and effect.
- (d) This Agreement is personal in nature and neither of the parties hereto shall, without the written consent of the other, assign or otherwise transfer this Agreement or its obligations, duties and rights under this Agreement; provided, however, that in the event of the merger, consolidation, transfer or sale of all or substantially all of the assets of the Company, the Company may assign its rights and obligations hereunder and, in the event of such assignment, this Agreement shall, subject to the provisions hereof, be binding upon and inure to the benefit of such successor and such successor shall be solely obligated to discharge and perform all of the promises, covenants, duties and obligations of the Company hereunder.
- (e) All notices shall be in writing and shall be delivered personally (including by courier), by overnight receipted courier service (such as UPS or Federal Express) or sent by certified, registered or express mail, postage prepaid, to the Company at the following address: Ribbon Communications Legal Department, 3605 E. Plano Parkway, Plano, Texas 75074, Attn: Head of Legal, and to you at the most current address we have in your employment file. Any such notice shall be deemed given when so delivered personally or, if by certified, registered or express mail, postage prepaid mailed, forty-eight (48)

hours after the date of deposit in the mail. Any party may, by notice given in accordance with this paragraph to the other party, designate another address or person for receipt of notices hereunder.

(f) The provisions set forth in Section 8(g) of the Employment Letter are hereby incorporated by reference in this Agreement and shall apply hereto *mutatis mutandis*.

(g) This Agreement shall be governed by and interpreted in accordance with the laws of the Delaware, without regard to the conflict of laws provisions thereof or of any other jurisdiction.

11. Acceptance. You may accept the terms and conditions described herein by confirming your acceptance in writing. Please send your countersignature to this Agreement to the Company, or via e-mail to me, which execution will evidence your agreement with the terms and conditions set forth herein.

\* \* \* \* \*

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the day and year first above written.

EXECUTIVE:

/s/ Patrick Macken

COMPANY:

By: /s/ Bruce McClelland

Name: Bruce McClelland

Title: President, Chief Executive Officer and Director



July 31, 2020

Sam Bucci

Via Email

**Re: Offer of Employment**

Dear Sam:

On behalf of Ribbon Communications Inc. ("Parent Company") and Ribbon Communications Canada ULC ("Ribbon Canada" and Parent Company and Ribbon Canada, together with its affiliates who may employ you from time to time, the "Company"), I am very pleased to extend this offer of employment (this "Agreement") as the Parent Company's EVP and General Manager, Packet Optical Networks, reporting to Bruce McClelland, President & CEO of the Parent Company. If you accept this Agreement on or before the deadline set forth below, your start date with the Company will be September 8, 2020 ("Start Date").

**A. Compensation and Work Location**

- 1) **Base Salary:** The annual gross base salary for this position is CAD\$578,000 ("Base Salary"), which is payable in gross bi-weekly amounts of CAD\$22,230.77. The base salary for this position is subject to applicable withholdings and deductions. Upon your employment by the Company in the USA, your annual gross Base Salary will be USD\$425,000, less applicable withholdings and deductions. Please refer to Section C below for additional terms regarding your relocation to the USA. Your Base Salary will be subject to review and adjustment by the Parent Company's Board of Directors (the "Board") or Compensation Committee of the Board (the "Committee") in its sole discretion.
- 2) **Annual Bonus:** You will be eligible to receive annual variable cash bonus based on achievement of certain corporate and/or individual objectives ("Annual Bonus"). Subject to achievement of such objectives for the applicable year, the target Annual Bonus shall be equal to seventy-five percent (75%) of your Base Salary. The Annual Bonus for each fiscal year will be based on the achievement of objectives determined by the Board or the Committee; provided that any Annual Bonus payable with respect to 2020 shall be pro-rated based upon the portion of the beginning on the Start Date and ending on December 31, 2020. Your Annual Bonus, if any, shall be paid as soon as reasonably practicable following Ribbon's public disclosure of its financial results



for the applicable bonus period and the Board's or Committee's approval of the bonus under the then-applicable Ribbon bonus plan, subject to your continued employment with the Company through the date of such payment (except as otherwise set forth in any written agreement by and between the Company and you).

- 3) Sign-on Bonus. You will be eligible to receive a one-time lump sum sign-on bonus in the amount of CAD\$136,000.00, less applicable withholdings and deductions, such being payable to you in the first regularly scheduled payroll following the Start Date. If you resign for any reason, or are terminated by the Company for Cause ("Cause" as defined in the then applicable severance agreement between you and the Company), within the first twelve (12) months following the Start Date, you agree that you will reimburse the Company a pro-rated portion of the Sign-on Bonus calculated based on the period remaining in the twelve (12) months following the Start Date. By signing this offer letter, you agree that any amounts you owe to the Company upon your termination may be withheld from your final paycheck and/or outstanding business expense reimbursements.
- 4) Equity Awards. Subject to your commencement of employment on the Start Date and approval by the Committee:
  - a) You will, on September 15, 2020 (the "Grant Date"), be granted restricted stock units (the "Sign On RSUs") that, upon vesting, will be settled in shares of common stock of the Parent Company with a value (as of the Grant Date) equal to USD\$550,000.00, calculated consistent with such grants made to similarly situated employees of the Company. Subject to your active and continuous employment with the Company through the applicable vesting date, the Sign On RSUs will vest on the first anniversary of the Grant Date. Notwithstanding the foregoing, your grant will be subject to, and you will be required to, enter into a restricted share unit agreement in the Company's applicable form in connection with the grant of the Sign On RSUs.
  - b) You will, on the Grant Date, be granted restricted stock units (the "RSUs") that, upon vesting, will be settled in shares of common stock of the Parent Company with a value (as of the Grant Date) equal to USD\$425,000.00, calculated consistent with such grants made to similarly situated employees of the Company. Subject to your active and continuous employment with the Company through the applicable vesting date, the RSUs will vest as follows: (A) 1/3<sup>rd</sup> of your RSUs on the first anniversary of the Grant Date (the "Initial Vesting Date"); and (B) the remaining 2/3<sup>rd</sup> of your RSUs vesting in four (4) equal installments on each six (6) month anniversary of the Initial Vesting Date. Notwithstanding the foregoing, your grant will be subject to, and you will be required to, enter into a restricted share unit agreement in the Company's applicable form in connection with the grant of the RSUs.

- c) You will, on the Grant Date, be granted performance share units (the “PSUs”) that, upon vesting, will be settled in shares of common stock of the Parent Company with a value (as of the Grant Date) equal to USD\$425,000.00, calculated consistent with such grants made to similarly situated employees of the Company. Notwithstanding the foregoing, your grant will be subject to, and you will be required to, enter into a performance share unit agreement in the Company’s applicable form in connection with the grant of the Sign On PSUs.
  - d) You will, on the Grant Date, be granted an additional 133,333 restricted stock units (the “Share-Price Units”), that upon vesting, will be settled in shares of common stock of the Parent Company. Subject to your active and continuous employment with the Company through the applicable vesting date, the Share-Price Units will vest in full on the date the Parent Company stock price achieves a daily closing price on the NASDAQ market of \$7.50 for 10 (ten) consecutive trading days on or before January 31, 2022 (the “Vesting Condition”). If the Vesting Condition is not met by January 31, 2022, then the Share-Price Units will expire without vesting. Notwithstanding the foregoing, your grant will be subject to, and you will be required to, enter into a restricted share unit agreement in the Company’s applicable form in connection with the grant of the Share-Price Units.
  - e) Except as set forth herein, you shall not be entitled to any other equity awards from the Company during the fiscal year ending December 31, 2020. Following the fiscal year ending December 31, 2020, subject to Board or Committee approval, you will be eligible to receive annual equity incentive awards under the Company’s incentive award plans at such times, in such amounts and forms, and on such terms as are determined by the Board or Committee, taking into account your role and responsibilities. You will be required to enter into equity award agreement(s) in the Company’s then-applicable form in connection with the grant of any future awards described in this Section 5(e).
- 5) Work location: You will work out of the Company’s Kanata, Ontario, Canada location until you relocate permanently to work for the Company from its Plano, Texas office, as contemplated in Section C below.

## **B. Benefits**

As a regular full-time employee, you will be eligible to participate in a number of Ribbon Canada-sponsored benefits, which include the Ribbon Canada medical plan, dental plan, short and long term disability plan, pension plan, and paid time away from work plans, subject to satisfying any eligibility requirements and to the terms and conditions of those plans.

Ribbon Canada may, at any time, modify, suspend, or discontinue any or all such benefits for its employees generally or for any group thereof at its sole discretion, without any

obligation to replace such benefits with any other benefits or to otherwise compensate you in respect thereof. Ribbon Canada's sole obligation is to pay its share, if any, of the required premium costs for these benefits. Any claim or dispute relating to a decision made by the group benefits insurer will be with and directed to the insurer only, and will not form the basis for any dispute or liability as between you and Ribbon Canada.

Benefit plan information is outlined in the Ribbon Canada Benefits Summary accompanying this offer of employment. This summary is provided for general information purposes only, and for all the applicable terms and conditions, you must refer to the full terms and conditions of each applicable plan.

Ribbon Canada will reimburse you for all reasonable travel, business development, meals, entertainment and other expenses incurred by you in connection with the performance of your duties and obligations on behalf of the Company. You will comply with such limitation and reporting requirements with respect to expenses as may be established by the Company from time to time and will promptly provide all appropriate and requested documentation in connection with such services.

Following your relocation as contemplated by Section C below, you will be entitled to participate in the U.S.-based benefit programs on terms consistent with other executives of the Parent Company.

**C. Relocation to the USA**

Your primary work location will be Plano, Texas. However, given the uncertainty related to the current Covid-19 pandemic, you will be employed initially by Ribbon Canada out of its Kanata, Ontario, Canada office, and the plans and timing of your employment by the Company in the USA and your relocation to the Dallas, Texas metropolitan area will be finalized once there is better certainty over the global situation. Once finalized, you understand and agree that you will:

- i. Be entitled to a one-time cash relocation allowance payment in the amount, after payment of any applicable income tax withholdings, of USD\$50,000.00 to support your relocation and assist you with moving related expenses, to be paid on the first payroll date following the date the timing of your relocation are finalized. If you resign from the Company, or are terminated by the Company for Cause ("Cause" as defined in the then applicable severance agreement between you and the Company), in each case, within twelve (12) months following your effective relocation date, or you fail to timely relocate in accordance with this Section C, you will be required to reimburse the Company for all relocation amounts paid to you within 30 days following your termination of employment or the date of such failure, as applicable. By signing this offer letter, you agree that any amounts owed pursuant to this Section C may be withheld from your final paycheck and/or outstanding business expense reimbursements;
- ii. Enter into an at-will employment agreement (including a confidentiality, non-competition, non-Solicitation and assignment of inventions agreement and

- severance agreement) with the Company in substantially the form executed by similarly situated US executive officers of the Parent Company. Such at-will employment agreement will recognize your service with Ribbon Canada, will replace and supersede this Agreement, and will be governed by Texas law; and
- iii. Cooperate with the Company to secure the necessary authorization for you to lawfully live and work in the US. You agree to provide any documentation or information at the Company's reasonable request to facilitate these processes. If the US government denies you authorization to live and work for the Company in the USA, you will continue to be employed by Ribbon Canada pursuant to the terms of this Agreement.

**D. Accessible Employment**

Ribbon is committed to ensuring a safe, dignified, welcome and accessible environment that respects the dignity, independence, integration and equal opportunity of people with disabilities. A copy of Ribbon's policies regarding accessible employment are available on Ribbon's Intranet. If you are a person with a disability and require reasonable accommodation during your employment with Ribbon, please contact your HR Business Partner or [globalhr@rbbn.com](mailto:globalhr@rbbn.com). Ribbon will work with you to create an Individual Accommodation Plan ("IAP") and to ensure that your IAP accurately reflects your accommodation requirements, including any personalized emergency response information that you require (e.g. if you require assistance in the event of an emergency, due to a disability)."

**E. Confidentiality, Non-Disclosure, and Non-Solicitation/Non-Competition and Other Restrictive Covenants Agreement with the Company.**

The Company considers the protection of its confidential information and proprietary materials to be very important. Therefore, it is a term and condition of this Agreement that you agree to execute and return the attached Confidentiality, Non-Disclosure, and Non-Solicitation/Non-Competition and Other Restrictive Covenants Agreement with the Company prior to the Start Date.

**F. Termination and Eligibility for Severance**

The parties acknowledge and agree that they will enter into a severance agreement in substantially the form attached hereto ("Severance Agreement") prior to the Start Date. Except as set forth in the Severance Agreement, you will not be entitled to any severance or other termination payments or benefits from the Company or any of its affiliates.

**G. Previous Employment**

By accepting employment with the Company, you represent the following: (a) any notice period you are required to give or to serve with a previous employer has expired and that by entering into or performing any of your duties for the Company, you will not be in breach of any other binding obligation on you; (b) you will not use or disclose any

confidential information in breach of any agreement you may have with a previous employer or any other person; and (c) you are not currently party to or bound by the terms of any non-competition, non-solicitation, confidentiality or non-disclosure agreement or other agreement with a previous employer or any other party which could impair or interfere in any manner with your ability to fully satisfy your obligations and duties hereunder.

**H. Indemnity**

As an executive of the Company, the Company will provide you with an Indemnity Agreement on the Company's standard form.

**I. Privacy**

By accepting this offer of employment with the Company, you understand and consent that the Company and its direct and indirect parents and affiliates may collect, use or disclose personal information about you as required for those purposes necessary for the conduct of the employment relationship (including benefits administration) ("Employee Personal Information"). Examples of these purposes include, but are not limited to recruitment, promotion, training or career development; contact of next of kin in event of emergency; employment administration; pensions and benefits administration; work planning and management; provision of references to potential employers, financial institutions, or educational establishments; performance development reviews and other performance assessments, appraisals, etc.; and photographs used for identification cards, management reports or employee announcements. You also understand that the Company may disclose your Employee Personal Information to a third party administrator for the purpose of administering your employment relationship with the Company and you hereby consent to such disclosure.

**J. General Terms and Conditions**

By accepting this offer of employment, you agree to comply with the Company's Code of Conduct including, without limitation, the anti-corruption and conflict of interest policies therein, as well as all Company policies, procedures and objectives, as in effect from time to time. By signing this offer letter you confirm that you have read and understood the attached Code.

This offer of employment is conditioned upon your successful completion of a criminal background check performed pursuant to your written authorization.

The terms and conditions of this offer of employment shall govern the parties, regardless of the length of employment or any changes to your position, compensation, title and regardless of whether such change is material or otherwise.

If any provision of this offer of employment or part thereof is determined at any time by a court, arbitrator or tribunal of competent jurisdiction to be invalid, illegal or unenforceable, such provision or part thereof shall be severable from this agreement and the remainder of this offer of employment will be construed as if such invalid, illegal or unenforceable provision or part thereof had been deleted here from.

If any term of this offer of employment fails to comply with any applicable minimum requirement of the Ontario *Employment Standards Act, 2000*, as amended, or any other applicable employment standards legislation, then the legislated minimum requirements shall apply and replace any term of this offer of employment that fails to comply. In such cases, the legislated minimum requirements shall constitute the parties' respective and total rights and entitlements in that respect.

This employment agreement and all matters arising hereunder shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

If you accept our offer of employment, this letter, the Severance Agreement, and the Confidentiality, Non-Disclosure, and Non-Solicitation/Non-Competition and Other Restrictive Covenants Agreement you enter into with the Company, and the other documents referenced herein will constitute the terms and conditions of your employment with the Company, and collectively supersede any prior representations or agreements, whether written or oral, regarding the subject matter herein (including, without limitation, that certain offer letter from Ribbon Communications Operating Company, Inc. dated July 20, 2020).

Please indicate whether or not you accept this offer of employment by signing this letter in the space provided below and sending a scanned copy to me via email (pferguson@rbbn.com) on or before August 31, 2020.

I am very happy to extend this offer to you and am excited about the prospect of you joining the Company.

Sincerely,



Petrena Ferguson  
SVP, Human Resources

Enclosures

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I, Sam Bucci, have read and accept this offer of employment.

I further acknowledge that I had sufficient time to review this offer of employment thoroughly, that I understand its terms and my obligations hereunder, and that I have been given an opportunity to obtain independent legal, financial and other advice concerning the interpretation and effect of this agreement.

/s/ Sam Bucci  
Signature

8/31/2020  
Date

**Severance Agreement**

THIS SEVERANCE AGREEMENT (the "*Severance Agreement*") is effective as of September 7, 2020 (the "*Effective Date*") between Ribbon Communications Canada ULC (the "*Company*"), a wholly owned subsidiary of Ribbon Communications Inc. ("*Ribbon*"), and Sam Bucci ("*you*").

1. Definitions. The following capitalized terms used herein shall have the following meanings:

(a) "*Annual Bonus*" means the annual variable cash compensation you are eligible to receive as determined from time to time by the Company, whether acting through Ribbon's Board of Directors (the "*Board*"), a committee thereof or otherwise, based on the achievement of certain Ribbon Entity and/or individual performance objectives. Subject to the minimum requirements of the ESA and except as expressly stated in this Agreement, no Annual Bonus will be paid or is payable to you following the Date of Termination and you waive any claim to damages (whether at common law or otherwise) in respect thereof.

(b) "*Base Pay*" means your annual base salary, as determined from time to time by the Company, whether acting through the Board, a committee thereof or otherwise, regardless of whether all or any portion thereof may be deferred under any deferred compensation plan or program of the Company.

(c) "*Cause*" means termination of your employment by the Company upon the occurrence of any of the following: (i) your commission of bribery in violation of the Code of Conduct (or similar policy) of the Company or other Ribbon Entity employing you at the relevant time and/or local law and regulation, including, without limitation, the UK Bribery Act, (ii) your engaging in acts in the course of your employment with any Ribbon Entity that constitute theft, fraud or embezzlement, (iii) your intentional or negligent misconduct which materially and adversely affects any Ribbon Entity and which is not cured (to the extent curable) within thirty (30) days following your receipt of written notice of such misconduct, (iv) your unauthorized disclosure of proprietary information of a confidential nature relating to any Ribbon Entity, which unauthorized disclosure has a material and adverse effect on any Ribbon Entity, (v) your material violation of any Ribbon Entity policy, agreement or procedure which is not cured (to the extent curable) within thirty (30) days following receipt of written notice of such violation, (vi) your excessive absenteeism, (vii) your material neglect of duty, (viii) your failure to devote substantially all of your working time to the business of the Ribbon Entities or to otherwise perform the duties of your position to the satisfaction of the Board (or your direct supervisor) which is not cured (to the extent curable) within thirty (30) days following receipt of written notice of such failure, (ix) your insubordination or failure to perform and carry out any directive of the Board (or your direct supervisor), (x) your abuse of alcohol, or unlawful use (including being under the influence) or possession of illegal drugs, at the premises of any Ribbon Entity or otherwise while performing (or holding yourself out as performing) services for or on behalf of any Ribbon Entity, (in each case of this subsection (x), subject only to applicable human rights legislation), (xi) your commission of any act that has resulted in (or could reasonably be expected to result in) conviction of an indictable offence or crime involving moral turpitude or pleading "no contest" to an indictable offence or other criminal charge involving moral turpitude, (xii) your failure to cooperate with any of the Ribbon Entities and/or their professional advisors in any investigation (whether internal or external) or any formal legal or investigative proceeding, (xiii) your engagement in any conduct, including any violation of applicable law, that may reasonably



result in material and adverse injury to the business or reputation of any Ribbon Entity, or (xiv) any other act or omission that constitutes just cause for termination at common law. The determination of whether a termination of your employment is for Cause shall be made by the Board (or its designee) in its sole discretion.

(d) “*Change in Control*” shall have the meaning set forth in the Incentive Award Plan.

(e) “*Change in Control Protection Period*” means the period beginning on the date of the consummation of the Change in Control and ending on the first anniversary of such Change in Control.

(f) “*Date of Termination*” means the earlier of (i) the effective date of termination of your employment specified by the Company or you in any written notice of termination or resignation, or (ii) the date on which you cease to perform services for the Company, in either case regardless of the reason for the cessation of your employment and regardless of any notice period or Severance Benefits to which you might then be entitled.

(g) “*Disability*” means an illness (mental or physical) or incapacity, which results in you being unable, following any accommodation(s) required by law, to perform your duties as an employee of the Company for a period of one hundred eighty (180) days, whether or not consecutive, in any twelve (12) month period, which illness or incapacity is expected, based on information obtained from a duly qualified medical practitioner, to continue to the same degree for the foreseeable future.

(h) “*Equity Awards*” means all stock options, restricted stock units, performance stock units and such other equity-based awards granted pursuant to the Incentive Award Plan. For the avoidance of doubt, “*Equity Awards*” shall not include any cash or cash-based awards granted pursuant to the Incentive Award Plan.

(i) “*ESA*” means the Ontario *Employment Standards Act, 2000*, as amended.

(j) “*Good Reason*” means:

- i. At any time other than the Change in Control Protection Period, the occurrence of one or more of the following conditions without your prior written consent: (A) a material reduction in your then-effective Base Pay (excluding any such reduction in connection with across-the-board Base Pay reductions for all or substantially all similarly situated employees), or (B) the relocation of your primary place of employment to a location more than 30 miles from your then-present work location; provided that, the relocation of your primary place of employment to Plano, Texas shall not constitute Good Reason for purposes of this Agreement; or
- ii. during the Change in Control Protection Period, the occurrence of one or more of the following conditions without your prior written consent: (A) a material reduction in your then-effective Base Pay or target Annual Bonus, (B) the relocation of your primary place of employment to a location more than 30 miles from your then-present work location; provided that, the relocation of your

primary place of employment to Plano, Texas shall not constitute Good Reason for purposes of this Agreement, (C) a material diminution in your authority, duties or responsibilities for the Ribbon Entities, or (D) any material breach of any written agreement by and between any Ribbon Entity and you;

provided that, in each case of subsections (i) and (ii), you shall not have Good Reason unless and until (x) you give the Company written notice describing the occurrence of Good Reason within 30 days after such occurrence first occurs, (y) such occurrence is not corrected by the Company within 30 days after the Company's receipt of such notice, and (z) you terminate employment no later than 30 days after the expiration of such 30-day correction period.

(k) "*Incentive Award Plan*" means Ribbon Communications Inc. Amended and Restated 2019 Incentive Award Plan (or any successor equity incentive plan of Ribbon).

(l) "*Ribbon Entities*" means Ribbon and its direct and indirect subsidiaries.

2. Term of Agreement. The term of this Agreement will commence as of the Effective Date and shall continue in effect until the earlier of (a) the third anniversary of the Effective Date; and (b) the date on which all payments or benefits required to be made or provided hereunder have been made or provided in their entirety (the "*Initial Term*"). Notwithstanding the foregoing, (i) on the third anniversary of the Effective Date and on each subsequent anniversary thereafter, this Agreement shall automatically renew and extend for a period of twelve (12) additional months (each such twelve (12)-month period, collectively with the Initial Term, the "*Term*") unless written notice of non-renewal is delivered from the Company to you not less than six (6) months prior to the applicable date on which extension of the then-existing Term would occur, and (ii) in no event will the Term end prior to the first anniversary of the date of consummation of a Change in Control.

3. Termination and Eligibility for Severance.

i. Accrued Benefits. Upon any termination of your employment, you will be paid (i) any and all earned and unpaid portion of your Base Pay through the Date of Termination; (ii) any accrued but unused vacation pay owed to you in accordance with Company practices up to and including the Date of Termination; and (iii) any allowable and unreimbursed business expenses incurred through the Date of Termination that are supported by appropriate documentation in accordance with the Company's applicable expense reimbursement policies. Hereafter, items (i) through (iii) in this Section 3 are referred to as "*Accrued Benefits*." If termination of your employment is (A) by the Company with Cause, (B) by you without Good Reason or (C) by the Company due to death or Disability, you will be entitled to receive only the Accrued Benefits, except as may be expressly required by the ESA. For the avoidance of doubt, termination by the Company due to death or Disability shall not constitute a termination without Cause.

ii. Severance Payment. Subject to Sections 3(c) and 5 of the Agreement:

1. If the Company terminates your employment without Cause or if you terminate your employment with Good Reason, in each case, outside of the Change in Control Protection Period, then, in addition to the Accrued Benefits, the Company will provide you the following severance and related post-termination benefits:

a. The Company shall, during the period beginning on the Date of Termination and ending on the twelve (12)-month anniversary of the Date of Termination, pay to you an amount equal to (A) twelve (12) months of your Base Pay as in effect immediately prior to the Date of Termination (or, in the case of termination by you with Good Reason due to material reduction in Base Pay, your Base Pay in effect immediately prior to such reduction) (the “*Non-CIC Severance Payment*”), and (B) an amount equal to the Annual Bonus you would have received, if any, had you remained employed through the end of such fiscal year, prorated to the Date of Termination and calculated based on actual achievement of the Ribbon Entity performance targets relating to such Annual Bonus (and assuming any individual, personal performance targets are achieved at target) (the “*Pro Rata Bonus*”);

b. The Company shall pay you an amount equal to the aggregate sum of the Company's share of medical, dental and vision insurance premiums for you and your dependents for the period commencing on the Date of Termination and ending on the first anniversary thereof (as if you had remained employed and based on coverage as of immediately prior to termination); *provided* that, to the extent the Company is required to provide you with continued benefits for any period after termination under the ESA, then it shall, in lieu of payments under this Section 3(b)(i)(2) in respect of such period, provide you coverage under such insurance for such period. For the avoidance of doubt, if immediately prior to the termination of your employment you were required to contribute towards the cost of premiums as a condition of receiving such insurance, the payment (or coverage) hereunder will not cover any such contributions. The cash payment or coverage provided for in this Section 3(b)(i)(2) or Section 3(b)(ii)(2), as applicable, is referred to herein as the “*Continued Benefit Payment*”;

c. Unless otherwise explicitly set forth in the award agreement for the applicable Equity Award, each outstanding unvested Equity Award held by you immediately prior to the Date of Termination that is subject to vesting based solely upon your continuous service with the Company (collectively, “*Time-Based Equity Awards*”) that would have vested during the twelve (12)-month period following the Date of Termination had you remained employed shall remain outstanding and on the Severance Commencement Date, (I) to the extent you have timely executed the Release Agreement, such Time-Based Equity Awards shall automatically vest and become exercisable (as applicable) or (II) to the extent you have not timely executed the Release Agreement, subject to the minimum requirements of the ESA such Time-Based Equity Awards will be forfeited for no consideration and you waive any claims to damages (whether at common law or otherwise) in respect thereof; and

d. Unless otherwise explicitly set forth in the award agreement for the applicable Equity Award, each outstanding unvested Equity Award held by you immediately prior to the Date of Termination that is subject to vesting in whole or in part based on achievement of performance objective(s) (collectively, “*Performance-Based Equity Awards*”) and is eligible to vest based on achievement of such performance objective(s) for performance periods ending prior to the Date of Termination or in which the Date of Termination occurs shall remain outstanding and on the Severance Commencement Date, (I) to the extent you have timely executed the Release Agreement, (x) the portion of such unvested Performance-Based Equity Award that is eligible to vest based on achievement of performance objective(s) for performance periods ending prior

to the Date of Termination shall remain eligible to vest and be settled (as applicable) in accordance with its terms based on actual performance, without regard for any requirement of continued employment, and (y) a prorated amount of the portion of such unvested Performance-Based Equity Award that is eligible to vest based on achievement of performance objective(s) for the applicable performance periods in which the Date of Termination occurs shall remain eligible to vest through the end of the fiscal year in which the Date of Termination occurs and be settled (as applicable) in accordance with its terms as if the last day of such fiscal year was the last day of the applicable performance period(s), based on performance targets established by the Company and actual performance through the end of such fiscal year, without regard for any requirement of continued employment, or (II) to the extent you have not timely executed the Release Agreement, subject to the minimum requirements of the ESA such Performance-Based Equity Awards will be forfeited for no consideration and you waive any claim to damages (whether at common law or otherwise) in respect thereof. The Company shall prorate the portion of each unvested Performance-Based Equity Award described in subsection (y) above based on the number of days of your employment during the performance period as compared to the total number of days in such performance period, with such prorated portion of such Performance-Based Equity Awards eligible to vest and become exercisable at the end of the fiscal year in which the Date of Termination occurs, based on the actual level of achievement of such performance objective(s) as of end of the applicable fiscal year (with the applicable performance objective(s) prorated for any shortened performance period). Any such determination by the Company shall be final and binding on all persons (including, without limitation, you). Notwithstanding anything to the contrary herein, settlement upon vesting (if any) of such Performance-Based Equity Awards described in subsection (ii) shall occur no later than March 15 of the calendar year immediately following the calendar year of the Date of Termination (or otherwise in compliance with applicable law). For the avoidance of doubt, any Performance-Based Equity Award with respect to which performance vesting conditions have been determined to be fully satisfied prior to or as of the Date of Termination (or, which, in connection with a Change in Control or otherwise, was converted into an Equity Award solely subject to time-based vesting) shall be deemed to be a Time-Based Equity Award for purposes of this Severance Agreement.

e. Subject to the provisions of Section 3(c), (I) the Non-CIC Severance Payment shall be paid in equal installments during the twelve (12)-month period following the Date of Termination in accordance with the Company's normal payroll practices beginning on the first payroll date following the 60th day following the Date of Termination (such payroll date, the "*Severance Commencement Date*"), and with the first installment including any amounts that would have been paid had the Release Agreement been effective and irrevocable on the Date of Termination, (II) the Pro Rata Bonus, if any, shall be paid at the same time as annual bonus payments are made to similarly situated employees of the Company for the applicable year, but in no event shall be paid earlier than January 1 or later than December 31 of the calendar year following the year of termination, and (III) the Continued Benefit Payment, to the extent payable in cash, shall be paid in lump sum on the Severance Commencement Date (or, if later, the first payroll date following the end of any period in which insurance coverage is required under the ESA), in each case, less applicable federal, provincial and other applicable withholdings.

a. If the Company terminates your employment without Cause or if you terminate your employment with Good Reason, in each case, during the Change in Control Protection Period, then, in addition to the Accrued Benefits, the Company will provide you the following severance and related post-termination benefits:

a. The Company shall pay to you a cash lump sum payment in an amount equal to (A) the sum of twelve (12) months of your Base Pay as in effect immediately prior to the Date of Termination and your target Annual Bonus for the calendar year in which the Date of Termination occurs (or in the case of termination by you with Good Reason due to material reduction in Base Pay and/or target Annual Bonus, your Base Pay and/or target Annual Bonus in effect immediately prior to such reduction, as applicable) (the “CIC Severance Payment”), and (B) the Pro Rata Bonus;

b. The Company shall pay you an amount equal to the aggregate sum of the Company's share of medical, dental and vision insurance premiums for you and your dependents for the period commencing on the Date of Termination and ending on the first anniversary thereof (as if you had remained employed and based on coverage as of immediately prior to termination); *provided* that, to the extent the Company is required to provide you with continued benefits for any period after termination under the ESA, then it shall, in lieu of payments under this Section 3(b)(ii)(2) in respect of such period, provide you coverage under such insurance for such period. For the avoidance of doubt, if immediately prior to the termination of your employment you were required to contribute towards the cost of premiums as a condition of receiving such insurance, the payment (or coverage) hereunder will not cover any such contributions; and

c. Unless otherwise explicitly set forth in the award agreement for the applicable Equity Award, any unvested Equity Awards outstanding immediately prior to the Date of Termination shall automatically become fully vested and exercisable (as applicable) as of the Date of Termination; *provided* that any Performance-Based Equity Award shall vest assuming a target level of achievement for each applicable performance objective(s).

d. Subject to the provisions of Section 3(c), (I) the CIC Severance Payment shall be made in a lump sum on the Severance Commencement Date, (II) the Pro Rata Bonus, if any, shall be paid at the same time as annual bonus payments are made to similarly situated employees of the Company for the applicable year, but in no event shall be paid earlier than January 1 or later than December 31 of the calendar year following the year of termination, and (III) the Continued Benefit Payment, to the extent payable in cash, shall be paid in lump sum on the Severance Commencement Date (or, if later, the first payroll date following the end of any period in which insurance coverage is required under the ESA), in each case, less applicable federal, state and other applicable withholdings.

iii. Release. Any amounts payable pursuant to Section 3(b)(i) or Section 3(b)(ii), as applicable (collectively, the “Severance Benefits”), shall be in satisfaction of all of the Company’s obligations to you in relation to the termination of your employment and you shall have no further entitlements in respect thereof from the Ribbon Entities, whether pursuant to common law or otherwise, except as may be expressly required by the ESA. Notwithstanding anything to the contrary herein, the Company’s provision of the Severance Benefits (to the extent only that such

Severance Benefits exceed your minimum entitlements under the ESA) will be contingent upon your timely execution of a general waiver and release of claims agreement in a form to be provided by the Company (a "Release Agreement"), subject to the terms set forth herein. You will have seven (7) days following your receipt of the Release Agreement to consider whether or not to accept it. If you do not timely execute the Release Agreement, you shall be required to pay to the Company, immediately upon demand therefor, the amount of any payments or benefits you received in connection with any portion of Equity Awards that was eligible to vest pursuant to Section 3(b) (including, without limitation, proceeds received or realized by you from the sale or surrender of any shares underlying such Equity Awards in connection with applicable tax withholding). For greater certainty, if you do not sign the Release Agreement, you will receive all of your minimum statutory entitlements under the ESA. However, no further amounts or benefits will be provided.

iv. The provisions of this Section 3 shall supersede in their entirety any severance payment provisions in any severance plan, severance policy, severance program or other severance arrangement maintained by the Company or any of its affiliates (or any of their respective predecessors). The Company shall have no further obligation to you in the event of termination of your employment for any reason at any time, other than those obligations specifically set forth in this Section 3 or as otherwise expressly required by the ESA.

4. Mitigation. You shall not be required to mitigate the amount of any payment or benefit provided for in Section 3 by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in Section 3 be reduced by any compensation earned by you as the result of employment by another employer or by retirement benefits after the Date of Termination or otherwise, subject to Section 5; provided, however, that any loans, advances or other amounts owed by you to the Company may be offset by the Company and its affiliates against amounts payable to you under Section 3 to the greatest extent permitted by applicable law.

5. Restrictive Covenants and Other Conditions. You acknowledge and agree that you are a party to that certain Confidentiality, Non-Disclosure, and Non-Solicitation/Non-Competition and Other Restrictive Covenants Agreement, dated as August 31, 2020 and such agreement remains in full force and effect (the "Restrictive Covenant Agreement"). In the event of (a) your material breach of the Restrictive Covenant Agreement, (b) your engagement in any act or omission after the Date of Termination that would have constituted "Cause" under subsections (ii) through (iv), (xii) or (xiii) of the definition thereof (without regard for any cure periods therein) for termination of your employment had you remained employed after the Date of Termination, or (c) the Company's determination in good faith that facts or circumstances existed on the Date of Termination that, if known by the Company on the Date of Termination, would have constituted Cause, the Company shall be entitled to cease all payments and benefits pursuant to Section 3(b), all Equity Awards that vested pursuant to Section 3(b) and any shares of Company stock you received with respect thereto shall immediately be forfeited, without payment therefor, and you shall be required to pay to the Company, immediately upon demand therefor, the amount of any proceeds realized by you from the sale of any such shares, subject to applicable law.

6. Withholding. The Company shall be entitled to withhold from any amounts payable under this Agreement any federal, provincial, local or foreign withholding or other taxes or charges that the Company is required to withhold. The Company shall be entitled to rely on an opinion or advice of counsel if any questions as to the amount or requirement of withholding arise.

7. Miscellaneous.

- (a) This Agreement, together with any written employment agreement or offer letter to which you may be a party and any agreements referenced herein, will constitute our entire agreement as to your employment by the Company and will supersede any prior agreements or understandings, whether in writing or oral, with respect to the subject matter hereof, other than with respect to any agreements between you and the Company with respect to confidential information, intellectual property, non-competition, non-solicitation, non-disparagement, nondisclosure of proprietary information, inventions and injunctive relief, including, without limitation, the Restrictive Covenant Agreement; provided that Section 7(g) supersedes and replaces any prior dispute resolution provisions in any other prior agreement between you and the Company (including, without limitation, the Restrictive Covenant Agreement).
- (b) This Agreement may be executed in more than one counterpart, each of which shall be deemed to be an original, and all such counterparts together shall constitute one and the same instrument.
- (c) In the event that the minimum standards in the ESA are more favourable to you in respect of any clause or provision of this Agreement, the relevant minimum standard in the ESA shall apply in place of that clause or provision.
- (d) The provisions of this Agreement are severable and if any one or more provisions may be determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions of this Agreement shall nevertheless be binding and enforceable and except to the extent necessary to reform or delete such illegal or unenforceable provision, this Agreement shall remain unmodified and in full force and effect.
- (e) This Agreement is personal in nature and neither of the parties hereto shall, without the written consent of the other, assign or otherwise transfer this Agreement or its obligations, duties and rights under this Agreement; provided, however, that in the event of the merger, consolidation, transfer or sale of all or substantially all of the assets of the Company, this Agreement shall, subject to the provisions hereof, be binding upon and inure to the benefit of such successor and such successor shall discharge and perform all of the promises, covenants, duties and obligations of the Company hereunder.
- (f) All notices shall be in writing and shall be delivered personally (including by courier), sent by facsimile transmission (with appropriate documented receipt thereof), by overnight receipted courier service (such as UPS or Federal Express) or sent by certified, registered or express mail, postage prepaid, to the Company at the following address: Ribbon Communications Legal Department, 3605 E. Plano Parkway, Plano, Texas 75074, Attn: Head of Legal, and to you at the most current address we have in your employment file. Any such notice shall be deemed given when so delivered personally, or if sent by facsimile transmission, when transmitted, or, if by certified, registered or express mail, postage prepaid mailed, forty-eight (48) hours after the date of deposit in the mail. Any party may, by notice given in accordance with this paragraph to the other party, designate another address or person for receipt of notices hereunder.
- (g) *Arbitration.* Notwithstanding anything to the contrary (including, without limitation, any other written agreement by and between you and any Ribbon Entity):

1. Any controversy, dispute or claim arising out of or relating to this Agreement or the breach hereof (a "Dispute") which cannot be settled by mutual agreement will be finally settled by binding arbitration in the Province of Ontario, before a single arbitrator. The arbitrator may enter a default decision against any party who fails to participate in the arbitration proceedings, subject to applicable law.
  2. The decision of the arbitrator on the points in dispute will be final, non-appealable and binding, and judgment on the award may be entered in any court having jurisdiction thereof.
  3. The fees and expenses of the arbitrator will be shared equally by the parties, and each party will bear the fees and expenses of its own lawyer in connection with any Dispute; provided that, to the extent the arbitrator determines you have prevailed on at least one material issue involved in any Dispute commencing during the Change in Control Protection Period, the Company shall reimburse you for all reasonable legal fees in connection with such Dispute.
  4. The parties agree that this Section 7(g) has been included to resolve any Disputes, and that this Section 7(g) will be grounds for dismissal of any court action commenced by either party with respect to this Agreement, other than post-arbitration actions seeking to enforce an arbitration award or actions seeking an injunction or temporary restraining order. In the event that any court determines that this arbitration procedure is not binding, or otherwise allows any litigation regarding a Dispute to proceed, the parties hereto hereby waive, to the maximum extent allowed by law, any and all right to a trial by jury in or with respect to such litigation.
  5. The parties will keep confidential, and will not disclose to any person, except as may be required by law or the rules and regulations of the U.S. Securities and Exchange Commission or other government agencies, the existence of any controversy hereunder, the referral of any such controversy to arbitration or the status or resolution thereof.
- (h) This Agreement shall be governed by and interpreted in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein, without regard to the conflict of laws provisions thereof or of any other jurisdiction.

8. Acceptance. You may accept the terms and conditions described herein by confirming your acceptance in writing. Please send your countersignature to this Agreement to the Company, or via e-mail to me, which execution will evidence your agreement with the terms and conditions set forth herein.

\* \* \* \* \*



IN WITNESS WHEREOF, each of the parties has executed this Severance Agreement, in the case of the Company by its duly authorized officer, as of the day and year first above written.

EXECUTIVE:

/s/ Sam Bucci

COMPANY:

By: /s/ Bruce McClelland

*Signature Page to Severance Agreement*

## CERTIFICATION

I, Bruce McClelland, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ribbon Communications 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 the 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: April 30, 2021

/s/ Bruce McClelland

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Bruce McClelland  
President and Chief Executive Officer  
(Principal Executive Officer)

## CERTIFICATION

I, Miguel A. Lopez, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ribbon Communications 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 the 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: April 30, 2021

/s/ Miguel A. Lopez  
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Miguel A. Lopez  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

**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 Ribbon Communications Inc. (the "Company") for the period ended March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Bruce McClelland, 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: April 30, 2021

/s/ Bruce McClelland  
\_\_\_\_\_  
Bruce McClelland  
President and Chief Executive Officer  
(Principal Executive Officer)

**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 Ribbon Communications Inc. (the "Company") for the period ended March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Miguel A. Lopez, Executive Vice President and 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: April 30, 2021

/s/ Miguel A. Lopez  
\_\_\_\_\_  
Miguel A. Lopez  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)