

28-Oct-2015

Sonus Networks, Inc. (SONS)

Q3 2015 Earnings Call

CORPORATE PARTICIPANTS

Mark T. Greenquist
Chief Financial Officer

Raymond P. Dolan
President, Chief Executive Officer & Director

OTHER PARTICIPANTS

Paul J. Silverstein
Cowen & Co. LLC

Mike J. Latimore
Northland Securities, Inc.

Jess I. Lubert
Wells Fargo Securities LLC

Ryan Christopher Hutchinson
Guggenheim Securities LLC

Theodore Joseph Moreau
Barrington Research Associates, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing-by and welcome to the Third Quarter 2015 Results Conference Call. During the presentation, all participants will be in a listen-only mode. Afterwards, we will conduct a question-and-answer session. [Operator Instructions] As a reminder, this conference is being recorded on Wednesday, October 28, 2015.

I would now like to turn the conference over to Mark Greenquist.

Please go ahead, sir.

Mark T. Greenquist
Chief Financial Officer

Thanks, Tara. Good morning everyone and welcome to Sonus Networks' Third quarter 2015 financial results conference call. Joining me on the call today is Ray Dolan, President and Chief Executive Officer;

Today's press release and supplementary data have been posted to our IR website at sonus.net and submitted to the SEC. A recording of this call and the transcript will be available on our IR website after the call. During our prepared remarks, we will be referring to a presentation with supporting information. Please take a moment to locate this on our IR website.

As shown on slide two, please note that, during the call, we will make forward-looking statements regarding items such as future market opportunities and the company's financial outlook. Actual events or financial results may differ materially from these forward-looking statements and are subject to various risks and uncertainties, including, without limitation, economic conditions, market acceptance of our products and services, the timing of

revenue recognition, difficulties leveraging market opportunities, the impact of restructuring activities and our ability to realize the benefits of acquisitions.

A discussion of these and other factors that may affect future results is contained in our most recent Form 10-Q filed with the SEC and today's earnings release, both of which are available on our website. While we may elect to update or revise forward-looking statements at some point, we specifically disclaim any obligation to do so.

Also, during our call, we will be referring to certain GAAP and non-GAAP financial measures. A reconciliation of the non-GAAP to comparable GAAP financial measures is included in our press release issued today.

With that, it's now my pleasure to introduce the President and Chief Executive Officer of Sonus, Ray Dolan. Ray?

Raymond P. Dolan

President, Chief Executive Officer & Director

Thank you, Mark, and welcome to everyone on today's call. I'm very pleased to report solid third quarter results. As you saw from today's release, these results were in line with and in many cases better than our expectations in a number of key areas of operating performance.

Notably, I'm very pleased to see our consolidated gross margins increased to 70% and as we'll discuss in a moment, we believe we'll be able to sustain gross margins of approximately 70% in the fourth quarter. These results, taken together with our solid second quarter indicate that we're making good progress in our efforts to return to growth and improve our profitability at Sonus.

Let's turn to slide four for the highlights of the quarter. We continue to strengthen and deepen our customer relationships and I'm pleased to report that we've had three 10% customers in the third quarter, totaling approximately 40% of total revenue. In order of size, these were AT&T,

Inteliquent and CenturyLink.

First, AT&T was a 10% customer in Q2 and I'm pleased their spending in Q3 continue to be directed towards Sonus' growth products which were used to support the upgrade of their network from legacy to IP-based network.

Second, Inteliquent was a 10% customer for the first time with Sonus. And we're very pleased to expand our long-standing relationship with them. As you may have seen, Inteliquent recently announced a new multi-year agreement to provide a full suite of IT voice services to T-Mobile. Inteliquent expects that the agreement will result in a significant increase in the volume of traffic carried on their network, and we're delighted that Inteliquent, has chosen Sonus to support its growing business.

Finally, CenturyLink was left with 10% customer in the third quarter of 2014. During the most recent quarters, CenturyLink turned to Sonus to supply their continued migration from a core legacy network to an IP-based network as well as the migration of their enterprise customers' networks to SIP trunking. As a result of these significant strategic engagements as well as good traction with many other customers, we were able to deliver strong operating results in a number of key areas.

First, our [ph] gross (04:44) product revenue was strong at \$30.9 million compared to \$16.2 million in the second quarter and slightly below the \$31.4 million we delivered in the third quarter of last year.

Second, our product book-to-bill ratio was above one for the third straight quarter, and we expect this good bookings momentum to continue in the fourth quarter. Third, we continued to improve our non-GAAP gross margins, which reached 70%. This improvement was mainly due to a favorable product mix, specifically the continued strong adoption of our flagship 7K product together with our ongoing cost reduction initiatives. And finally, we ended the third quarter with cash and investments of approximately \$127 million, which was a significant improvement versus our second quarter balance of \$113.5 million. So, we have more work to do. I'm particularly pleased with our results and I'm very proud of the team for their efforts and continued customer focus.

Sonus is strong financially, increasingly strategic to our customers, and focused on the opportunity that UC offers in the software centric cloud architecture of the future.

I would now like to hand it over to Mark to discuss our results and outlook in more detail. Mark?

Mark T. Greenquist

Chief Financial Officer

Thanks, Ray. As a reminder, gross margin, operating expenses, operating income and earnings per share are all discussed on a non-GAAP basis and have been reconciled for you at the end of today's press release and presentation.

So, let's move straight to slide six for a closer look at the quarter. Total revenue of \$67.9 million exceeded our guidance of \$65 million. Some of this overachievement versus guidance was due to customers accelerating some orders from the fourth quarter into the third quarter. However, as Ray just mentioned, our bookings, as well as our book-to-bill performance in the third quarter were very strong and indicative of robust customer demand in the quarter. Going into the fourth quarter, we expect this momentum to continue.

Total product revenue was \$42.2 million and total services revenue was \$25.6 million. \$42.3 million or about 62% of our total revenue was attributed to our growth-related products and services compared to 56% in the third quarter of 2014 and 52% in the second quarter of 2015.

Non-GAAP gross margin was 70%, which was above our guidance of 67.5% to 68.5%. And as Ray just mentioned, the outperformance was largely due to favorable product mix, as well as our cost reduction initiatives.

This better than expected revenue and gross margin performance was offset slightly by somewhat higher non-GAAP operating expenses of \$41.4 million versus our guidance of \$40 million to \$41 million, with the results that our non-GAAP third quarter earnings came in at \$0.11 per share, well above our guidance of \$0.05 to \$0.08 per share.

We are also pleased with our strong cash flow performance in the third quarter. Cash and investments totaled \$126.9 million at the end of the quarter, an increase of \$13.4 million compared to the end of our second quarter.

In addition to our strong earnings improvements in cash flow – improvements in cash flow came from strong collections in the quarter, leading to a significant reduction in receivable days outstanding, which we reduced from 80 days in the second quarter to 68 days in the third quarter.

Now, let's turn to slide seven, for our guidance. Our solid performance in the third quarter, coupled with our expectations for the fourth quarter, has set us up for a strong second half. We've tightened our prior revenue range

for Q4 and reaffirmed our annual guidance. Specifically, Q4 revenue is expected to be between \$73 million and \$75 million and for the year, we expect full year revenue to be between \$246 million and \$248 million.

Fourth quarter non-GAAP gross margin is expected to be approximately 70%. We believe that the favorable trends in product mix, which have driven gross margin expansion will continue going forward. Non-GAAP OpEx for the fourth quarter is expected to be between \$41 million and \$42 million and non-GAAP earnings per share is expected to range between \$0.18 and \$0.21 and that's based on \$50 million diluted shares outstanding.

We expect to end the year with cash and investments that are around the same level or slightly better than the quarter end Q3, cash position. Looking forward to 2016, as you know, we typically provide new annual guidance, in connection with our Q4 results and we'll do so again in February.

Still we thought, it would be helpful to give you some early perspective on how we see the environment shaping up. In particular, we currently expect mid single-digit percentage revenue growth for 2016 and we continue to have confidence in Sonus' technology and our ability to further strengthen our customer relationships, as we did in this most recent quarter.

Let me turn it back over to Ray for some closing remarks. Ray?

Raymond P. Dolan

President, Chief Executive Officer & Director

Thank you, Mark. I'm pleased with the results we've delivered over the past couple of quarters. The margin expansion, new customer wins and higher level of bookings, which led to a consistently strong book-to-bill ratio reflected strength of Sonus' technology and our relevance in the emerging software-based cloud architecture. They're also good indicators of our strength heading into the fourth quarter.

As we've said in the past, the mission to migrate real-time capability to the new cloud architecture is a massive one and we believe that our technology perfectly positions Sonus for this transition. We believe the strength we're seeing in the second half is a good indication of the carrier spending environment remains healthy. As such, we're taking a constructive, but somewhat cautious view of 2016 until we have better visibility into the amount and timing of their spend next year.

And with that, we now like to open the call for your questions, operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from the line of Paul Silverstein with Cowen. Please proceed.

Paul J. Silverstein
Cowen & Co. LLC

Q

Thanks guys. Mark, can you update us on the staff reduction effort on – give us some indication where that stands as well as what the voluntary and involuntary attritions looks like?

Raymond P. Dolan
President, Chief Executive Officer & Director

A

Sure. So as you recall, we ended the first quarter with 1,200 people approximately and the objective was to get that head count number down to 1,050. We were – we were within ten of that, after the second quarter and as of the end of the third quarter, we're right at 1,050 heads. So between voluntary and involuntary attrition Paul, in the second quarter, we were effectively, done with what we wanted to do, with regard to the staff reductions and then that head count stayed stable in the third quarter.

Paul J. Silverstein
Cowen & Co. LLC

Q

Okay. And then Ray on the – on the three deals you spoke about the, the three relationships at 10%. Can you give us a little bit more color in terms of leads, I assume these are projects that are going to go on for a while as opposed to one quarter, two quarter projects, any color you can you give us on that?

Raymond P. Dolan
President, Chief Executive Officer & Director

A

Yes, happy to do that Paul. Thanks for your question. So it was AT&T, Inteliquent and CenturyLink. I don't know, that I would categorize all of them as projects that would go on for a number of quarters. In AT&T's case certainly, we have ongoing spend there, I expect them probably to be 10% customer again in the fourth quarter but wouldn't be disappointed, if they fell just short of that, but that is indicative of an ongoing project to help them transform their network.

In the Inteliquent win that was a fairly large, single deal, I do expect it to continue, but not at that magnitude in the future quarters because that was a fairly large migration of the T-Mobile traffic to them in quarter. And then on the CenturyLink one, I do expect that to continue going forward probably, not at the exact same level, but definitely at a strategic level as they continue to migrate the SIP trunking side of their enterprise business.

And, then I would expect in the next couple of quarters, different names to show up in the 10% category. I'm very encouraged by, some of the other large global players – just taking your time and working through their issues, but I would expect a couple of other Tier 1's to popup in Q4, Q1, and Q2 next year.

Paul J. Silverstein
Cowen & Co. LLC

Q

Got it. One last – one question for me. I appreciate, it's hard to – it's hard forecasting and I appreciate the guidance you gave us for next year. In that mid-single digit number, when you look at your growth products, any thoughts for what type of growth you expect to see next year?

Raymond P. Dolan

President, Chief Executive Officer & Director

A

So, it's certainly going to be higher than that. I don't want to go into the specifics, but I mean – we've – as we look at next year, we do expect the trunking revenue is going to continue to decline. We think that the 7K traction that we've got, is going to continue. I think the wild card is kind of the 9K SBC and that's actually had probably a better year than what we previously expected.

But – I'm not imagining that, that's going to continue forever. So, on the growth side, Paul, I think, we are going to get up from year-over-year growth up close to double-digits, if not in the double-digits, then that's going to offset further declines in the trunking and the average is like we said, going to be probably mid-single digits.

Paul J. Silverstein

Cowen & Co. LLC

Q

I appreciate it, I'll pass it on. Thanks guys.

Raymond P. Dolan

President, Chief Executive Officer & Director

A

Thanks.

Mark T. Greenquist

Chief Financial Officer

A

Thanks, Paul.

Operator: Thank you. And our next question comes from the line of Jess Lubert with Wells Fargo. Please proceed.

Jess I. Lubert

Wells Fargo Securities LLC

Q

Hi, guys. I also have a couple of questions. Can you give us the enterprise carrier split and help us understand, what you saw on those two sides of the business?

Raymond P. Dolan

President, Chief Executive Officer & Director

A

Sure. The enterprise was about 20% of product revenue. So that was pretty much in-line with what we averaged over fiscal 2014, maybe a couple of percent down from Q2, but well up from Q1. So it was – again, it was a relatively steady split, what drove the quarter more – much more, so were the North American carriers. So as you'll recall, that's where we really had the most weakness in the first part of the year that seems to have come back as we expected to consistent levels with what we were seeing in the second half of last year. And then, and as a result, that's why we had those three big carriers as 10% customers.

Jess I. Lubert

Wells Fargo Securities LLC

Q

Okay. And then, I was hoping you could provide some additional details regarding your comments on visibility. It sounds like you saw strong order momentum in the period, yet you're not passing the Q3 upside along for the year, and it seems like, you're setting modest expectations for 2016. So I was hoping you could help us reconcile those points.

Raymond P. Dolan

President, Chief Executive Officer & Director

A

Yes, Jess. It's Ray. Thanks for your question. So we have seen some good visibility, we've had consecutive quarters of above one book-to-bill and I believe we'll have full-year above one. So that gives me confidence to guide in that range that we did, just remember that's a product book-to-bill, maintenance side is a little more flat and it's a material part of the business, so in the aggregate, the math works out that way, with probably about a 10% product line growth and about a mid-single digit total company growth.

It could be better than that, but I think it's premature to call that until we really see the strong fourth quarter characteristics and get a handle for what people spend look like next year. But we do see continued migration of SIP trunking, our investments in the software centrality of our entire SBC portfolio as well as our signaling portfolio is resonating with a lot of large Tier 1s. It's critical that while they are not necessarily buying those software products right now that's a part of our roadmap and that we can deliver them now and then, of course, the 7K is just really taking a lot of traction in the marketplace. So, the customers love that, it's video-ready, it's high-density and it's allowing us to go after some house accounts from Oracle Acme.

Mark T. Greenquist

Chief Financial Officer

A

Yes, and I would just add, I mean, we were basically guiding that we were going to do over \$140 million of revenue in the second half of the year versus the \$105 million or so that we did in the first half of the year. We saw a big recovery in bookings in the third quarter. As Ray mentioned, the book-to-bill was very strong that did lead us effectively more of the second half happening in the third quarter than the fourth quarter. At least at this point in time, we still see that bookings momentum continuing, on which, Ray, I think, we still think that we're going to be able to hit our second half, perhaps we do a little bit better, but the bookings that we saw in the third quarter and the book-to-bill that we saw in the third quarter, certainly raises our confidence level with regard to our ability to achieve the guidance that we just gave you for fourth quarter.

Jess I. Lubert

Wells Fargo Securities LLC

Q

Just last one from me. I was hoping you could touch on the competitive environment, the third-party market data suggests 2015 has been a fairly strong year for the SBC market. So, I guess I was hoping to better understand what you're seeing when you come up again some of the integrated IMS providers and what gives you confidence, you can win against these suppliers with the more targeted offering? Thanks.

Raymond P. Dolan

President, Chief Executive Officer & Director

A

Yes, Jess. Thanks. So on the integrated IMS suppliers, those are some challenges for sure. They tend to be wireless players, driving some level of SBC pull-through on VoLTE. We'll probably develop some better partnerships in 2016 to give us, I think a very good shot to that growth market but we have not – I don't think had any major successes this year in that VoLTE space. We have continued to drive very good share in the peering market, which VoLTE does pull through, so we've enjoyed some nice growth there. And we've begun to get some very meaningful opportunities and wins in the access market, as I said with the SIP trunking side, a couple of large players.

Jess I. Lubert
Wells Fargo Securities LLC

Q

Thanks, guys.

Raymond P. Dolan
President, Chief Executive Officer & Director

A

Sure. Thank you, Jess.

Operator: Thank you. And the next question comes from the line of Ted Moreau with Barrington Research. Please proceed.

Theodore Joseph Moreau
Barrington Research Associates, Inc.

Q

Thanks for taking my questions and thanks for providing the 2016 preliminary view. Just how do we – how should we think about the seasonality trends for next year? Will we expect it to be more kind of a back half loaded year kind of like this year or do you see it a little more steady state throughout the year. Do you have any thoughts there?

Raymond P. Dolan
President, Chief Executive Officer & Director

A

Well, I definitely think that the second half is going to be better than the first half. And I think that obviously, we're going to have pretty easy compares first half versus first half, second half over second half. I think we need to wait and see what carriers are – what carrier spending plans are and such. And so at least the way that I've thought about it is, most of that improvement being in the first half of the year versus the first half of 2015 and then the second half being pretty much the same maybe up a little bit. So again still back-end loaded but maybe not to the degree this year was or is.

Theodore Joseph Moreau
Barrington Research Associates, Inc.

Q

Okay. And then – and one of your 10% customers publicly announced their virtualization plan this week or I'm sorry in the past few weeks. Then it sounds like they're going to move fairly aggressively. So how does that impact – does that influence your business. How does that impact your business and what have you learned – have you learned anything from their progress on what they're doing and migrate into SDN and NFV maybe a little bit faster than some other customers. Can you talk about that a little bit?

Raymond P. Dolan
President, Chief Executive Officer & Director

A

Sure. Ted that was CenturyLink that you're referring to I'm assuming. And they did announce a number of component vendors in that push to SDN and NFV. I don't think they did announce the SBC side of that yet. We continue to work with CenturyLink, it's one of our largest and longest standing customers. And we'll see, I'm encouraged that they're responding to the market opportunity to drive to software in SDN and NFV. We've got our solutions ready, we continue to work with them and all customers in the industry around that opportunity. I do think it represents a big opportunity for us in 2016 if they stay on course.

Theodore Joseph Moreau

Barrington Research Associates, Inc.

Q

And, so if they've not announced SBC intentions yet, I mean do you have a feel for the timeline of that, I mean, is it something that's going to happen in 2016 or is that kind of up in the air?

Raymond P. Dolan

President, Chief Executive Officer & Director

A

I'm not going to comment on their timing, but I do think that they'll probably move in 2016 or 2017. We'll see how the market plays out.

Theodore Joseph Moreau

Barrington Research Associates, Inc.

Q

Okay. All right, thanks. I'll pass on.

Raymond P. Dolan

President, Chief Executive Officer & Director

A

Sure. Thank you.

Operator: Thank you. And the next question comes from the line of Mike Latimore with Northland Capital Markets. Please proceed.

Mike J. Latimore

Northland Securities, Inc.

Q

Yes. Great, thanks. Just on 2016, I mean, your general thought you could be EPS positive for every quarter or there might be a quarter where kind of go back into a little bit of [indiscernible] (24:01) scenario?

Raymond P. Dolan

President, Chief Executive Officer & Director

A

So, I think we'll hold off and talk about that at the fourth quarter earnings call, Mike. I mean, we wanted to give some indication on the top line and where that's going. I don't want to get into a discussion where we eventually have every single component of our guidance out there. So I'm going to pass on that and like I said we'll comeback in February and give you the normal amount of detail.

Mike J. Latimore

Northland Securities, Inc.

Q

Sure. And then I guess just on the software SBC, I guess is your thought right that you will see some decent revenue in that category in 2016 or is that more of 2017?

Raymond P. Dolan

President, Chief Executive Officer & Director

A

So, Mike, I think it's too soon to tell, but here's how I would ask – this is how I look at it, you all can look at it as you wish. But if you will get some of the margin opportunities we have in the 7K and frankly in the 5K as well as in our policy engine they're very high margin products, the disaggregation of hardware and software, we're kind of financially indifferent too.

So if people want to take their time and continue to buy hardware centric boxes and a lot of them that wants transcoding, want to continue to run them on our special purpose boxes. We'll take that business all day long. If they start migrating to software and want to match us up in the new cloud architecture, we're ready to do that and we're working with a number of them in their labs right now to show how that plays out. But, it's complicated and it's a multivendor environment usually and it's not necessarily within our full control, timing wise. So, we'll discontinue to ship 9K, 7K, 5K boxes until they're ready for that. My guess is, it's probably still a year away before it has a material impact on our revenue stream.

Mike J. Latimore
Northland Securities, Inc.

Q

Sure, sure. And I guess, last on the enterprise business; should we think about that, as sort of being in that 20% or so range over time or does that grow faster or slower than the overall business given?

Raymond P. Dolan
President, Chief Executive Officer & Director

A

No. I think, that, that mix is going to probably stay, pretty much the same. I'm not expecting any big shifts in – service provider versus enterprise.

Mike J. Latimore
Northland Securities, Inc.

Q

Yes. Okay, thanks.

Raymond P. Dolan
President, Chief Executive Officer & Director

A

Thank you.

Operator: Thank you. And our next question comes from the line of [ph] Steve Cowen with Global Partners (26:27) Please, proceed.

Q

Hi, good morning. I was hoping you could just get back...

Raymond P. Dolan
President, Chief Executive Officer & Director

A

Hi, [ph] Steve (26:30).

Q

Little bit more on the expenses that came in a little bit on the high side this quarter, particularly with G&A and now, it looked like for the full year, the chance of hitting breakeven no longer exists. Is that, because of the expenses, trying to understand it better, given that the head count, you've brought it down as expected yet the expenses seem to be running on the high side?

Raymond P. Dolan

President, Chief Executive Officer & Director

A

Yes, well – so, we have a little bit of extra business in the third quarter. So, not surprised there that the expenses were a touch higher. And, as well, we had some stuff that we were working on that – we kind of accelerated into the third quarter and as a result sought a touch higher amount of spending there. But, I still think, with the head count control that we've got, we were going to see continued good performance on the OpEx front and I believe that that's going to continue into 2016 as well, because I think we'll keep a tight lid on head count as we move forward.

Q

Just as a follow up...

Raymond P. Dolan

President, Chief Executive Officer & Director

A

And I mean head count is the – head count is the main driver of kind of the run rate OpEx number.

Q

Specifically on the G&A which was up about \$1.5 million sequentially, I'm just wondering is that one-time stuff or is that something that's going to continue?

Raymond P. Dolan

President, Chief Executive Officer & Director

A

Like I said, we had some project spending that we were doing that was accelerated. I don't want to say that it's like absolutely one-time but you are correct in that it was higher in the quarter than we should see on an ongoing basis.

Q

Thanks.

Operator: Thank you. And our next question comes from the line of Ryan Hutchinson with Guggenheim. Please proceed.

Ryan Christopher Hutchinson

Guggenheim Securities LLC

Q

Okay. Great.

Raymond P. Dolan

President, Chief Executive Officer & Director

A

Good morning, Ryan.

Ryan Christopher Hutchinson

Guggenheim Securities LLC

Good morning. So first half...

Q

Raymond P. Dolan

President, Chief Executive Officer & Director

How are you doing?

A

Ryan Christopher Hutchinson

Guggenheim Securities LLC

Good. The gross margins, you touched on that in the prepared remarks. Is that something that is sustainable into 2016?

Q

Mark T. Greenquist

Chief Financial Officer

I think so Ryan. It's certainly sustainable to Q4 and we'll comment further on it when we post Q4, but it's my view that it is sustainable at this point in time but we need to prove that.

A

Ryan Christopher Hutchinson

Guggenheim Securities LLC

Okay. Okay. And that's primarily product mix driven, right, as you think about it?

Q

Mark T. Greenquist

Chief Financial Officer

Product mix, correct.

A

Ryan Christopher Hutchinson

Guggenheim Securities LLC

Okay. Okay. Fair enough. And then a little bit more detail on pull forwards. Can you provide just a color on the impact maybe a rough number, a range around revenue impact that it had and how we should think about that?

Q

Mark T. Greenquist

Chief Financial Officer

Well, I mean, if you look at our guidance, we're keeping the year the same so the second half is intact and but third quarter was \$3 million higher. So

A

Ryan Christopher Hutchinson

Guggenheim Securities LLC

Okay.

Q

Mark T. Greenquist

Chief Financial Officer

The rough number is around that.

A

Ryan Christopher Hutchinson

Guggenheim Securities LLC

Just the basic math.

Q

Mark T. Greenquist

Chief Financial Officer

Yes. Exactly.

A

Ryan Christopher Hutchinson

Guggenheim Securities LLC

Okay.

Q

Mark T. Greenquist

Chief Financial Officer

Yes. There is nothing – there is nothing more than this the basic math and the basic numbers.

A

Ryan Christopher Hutchinson

Guggenheim Securities LLC

Okay fair enough. And then on the – Ray you touched on some potential wins in a prior question with the Acme installed base that caught my ear, wanted to explore that a little bit more. How much of an opportunity do you think is left there because my understanding was that was largely capped out?

Q

Raymond P. Dolan

President, Chief Executive Officer & Director

Well, we'll see Ryan. The – I think there is a couple of large Tier-1s that have a number of either upgrades or end of life on existing product and will consider Sonus as an alternative to the Oracle Acme suite in the next 12 months to 18 months. I think that exists both in the telco side as well as in the cable vertical and we're going after them hard.

A

So I can't size it for you, but I will tell you that we're going after it hard and I think our product is rock solid. It clearly scales better. And it will evolve to a software cloud based architecture better. So we're working really hard on it and I'll keep you posted on it as best we can and as transparently as we can in future calls.

Ryan Christopher Hutchinson

Guggenheim Securities LLC

Okay. Great. Thanks guys.

Q

Raymond P. Dolan

President, Chief Executive Officer & Director

Thank you.

A

Operator: Thank you. [Operator Instructions] The next question comes from the line of [ph] Jeff Bernstein with Cowen Partners (31:08). Please proceed.

Q

Hi, guys. Nice result today. So I had a couple of questions. You guys have been talking about in prior months kind of hardening the diameter product and just wanted to see what kind of progress you were making there and what the outlook there was. I think you guys have talked about the Oracle numbers on the VoLTE opportunity being not totally insane and it being a pretty big and pretty fast growing opportunity?

Raymond P. Dolan

President, Chief Executive Officer & Director

A

Yes. Hey, [ph] Jeff (31:45), could you repeat the questions around Diameter?

Q

Yes. And you guys have been working on hardening the product that you acquired and I guess the question is, are you really in the market now there and do you still see the opportunity being as dramatic as some others have said?

Raymond P. Dolan

President, Chief Executive Officer & Director

A

I do think that the Diameter opportunity is large. We recently had a major software release that we put out. We are engaged with a number of customers. Most of our signaling revenue to-date has been on the SS7 side so we haven't had I'd say any major success in the Diameter piece but I do believe our outlook for that is solid, especially as we get more involved on to the wireless side through some VoLTE engagements. So I think that's more of a 2016 story for now. Did that answer your question, [ph] Jeff (32:38)?

Q

Yes, that's great. And can we get an update on Microsoft-Skype relationship and what's going on there?

Raymond P. Dolan

President, Chief Executive Officer & Director

A

Sure. Happy to do that. Microsoft rebranded Lync as Skype for Business. There is a large push to drive that and to enable voice, because the number of their licenses have really not enabled voice over last several years, so it's a very big push for that inside Microsoft, I think that's clear through their CEO all the way [ph] on down (33:10). We have had a strategic relationship with Microsoft for a number of years now and we're in very tight discussions with them as to how to enable voice in their new cloud architecture for Skype for Business.

So, I remain very bullish on our relationship. It's very strategic to us, I believe it's very strategic to them as well. And I think, given that not only is Microsoft pushing there, you see Google pushing there, you see number of over-the-top players pushing there. I think next year will be a very big push for the entire UC suite, not only in Skype, but for all of those well-scaled players.

Q

And then I think you guys had – were also involved with BroadVision and hadn't seen a whole lot new on that as well. Can you talk about that a little bit?

Raymond P. Dolan

President, Chief Executive Officer & Director

Based on our BroadSoft?

A

Q

Yes. I'm sorry BroadSoft.

Raymond P. Dolan

President, Chief Executive Officer & Director

Okay. So, BroadSoft, yes, we do have a strategic relationship with BroadSoft that's been for a number of years now both in BroadWorks and in BroadCloud. As an environment we have won a number of engagements with them. So it's steady as she goes there, I think we have a very nice coupling particularly on the high-end where we scale nicely in their evolving cloud architecture.

A

Q

Okay. And then, so six months past the difficult quarter. What's kind of the post-mortem on and what do you think really happened in terms of the moving parts in the environment that caused that?

Raymond P. Dolan

President, Chief Executive Officer & Director

Well, [ph] Jeff (34:46), I think it's consistent with what we said. We had a number of things pushed out. We detailed that in our Q1 call I'd say and I'll refer you back to that. But since then what we've had is a number of large strategic relationship, we established some sales on closer to historical run rate, I'm very excited that the combination in Q3, Q4 confirms our second half which looked like a fairly seasonal decline coming out of the Q1 quarter. We're on the verge of doing that. I'm pleased that, that is our outlook and we're focused very hard on meeting or beating that. So that's how I look back on that, and we internally, quickly responded with the cost structure, the questions from Paul earlier to Mark, we've got to head count quickly and we've maintained that head count consistently. So, I'm very pleased with where we are right now; that is much color as I can give you on, what happened in Q1.

A

Q

And then just on the, SDN NFV move, obviously, there has been kind of a lot of hype out there, a lot of people with lot of press releases. You guys haven't put out as many press releases and haven't been mentioned as much by some of the big carriers. Is that by choice, is that because SBC and/or Diameter signaling are not very additive because the whole thing is sort of moving back and forth, between scalable hardware based solutions, that eventually let you go to software and the actual Holy Land?

Raymond P. Dolan

President, Chief Executive Officer & Director

A

Yes, so [ph] Jeff (36:26). Let me see, if I can respond to your question. First, on our press releases, I believe we've highlighted our software capability in virtually all of them, but we don't tend to pound the table with buzzwords, we just try to say it as it is.

Our products have been software centric, we have the only SBC suite that scales from one session to virtually infinite sessions, depending on how many virtual containers you use, and we do that across, virtually all of the industry standards for virtualization, from the standpoint of those environments.

So, that's been the case for well over a year now, our customers know that, so as we upgrade from 4.0 to 5.0, to ultimately more releases that are more and more multi-centric, all of that comes with it. With regard to customer press releases, frankly, I think our business stands on its own merits, right. We've had a tremendous success with our 7K. They know that's the [ph] code load (37:25) that takes into virtualization. So we're just working with them on the cloud strategies and we'll report our progress along the way. It's not our intention to stay silent on it, but it is our intention to focus on results as opposed to just peer buzz and press releases.

Q

Okay. That's perfect. And then lastly, last quarter you talked about some new Tier 1 wins globally, any update you can give us there?

Raymond P. Dolan
President, Chief Executive Officer & Director

A

No. nothing from this quarter.

Q

Great. Thanks very much.

Raymond P. Dolan
President, Chief Executive Officer & Director

A

Thank you.

Mark T. Greenquist
Chief Financial Officer

A

Thanks, [ph] Jeff (37:53).

Raymond P. Dolan
President, Chief Executive Officer & Director

A

Okay, operator, I think that's it?

Operator: Thank you. Please go ahead with your closing remarks.

Raymond P. Dolan
President, Chief Executive Officer & Director

Okay. Thank you to everyone on the call. I appreciate your time today and your continued support to Sonus. As I said on my prepared remarks, we've got more work to do. We're going to go back and do that work now. We look forward to reporting out on our fourth quarter and meeting some of you in the market in our IR engagements, but thanks for your support and [indiscernible] (38:21). Thank you, operator.

Mark T. Greenquist
Chief Financial Officer

Thanks.

Operator: Thank you. Ladies and gentlemen that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2015 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.