

SONUS NETWORKS FOURTH QUARTER AND FULL YEAR RESULTS

PREPARED REMARKS

FEBRUARY 20, 2014

PATTI LEAHY, VICE PRESIDENT, INVESTOR RELATIONS

Thank you and good morning. Welcome to Sonus Networks' fourth quarter and year end 2013 operating results conference call. Today's press release, prepared remarks and supplementary financial and operational data have been posted to our IR website at sonus.net. A recording of this call will be available there later this morning as well. During the call we will also be referring to a presentation with supporting information. Please take a moment to locate this on our IR website if you haven't done so already.

Joining me on the call today are Ray Dolan, President and Chief Executive Officer, and Mark Greenquist, Chief Financial Officer.

As shown on slide 2, please note that during this 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 in 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.

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, as well as in the Investor Relations section of our website.

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

RAY DOLAN, PRESIDENT AND CEO

Thank you, Patti, and good morning everyone. I am very pleased to report strong fourth quarter and year end results. We've made great progress and we hope the presentation that Patti referenced will help make that progress abundantly clear.

Let's move to slide 4. I'd first like to recap the news announced yesterday which is that we have successfully closed the transaction with Performance Technologies, or PT. We are excited about this deal for several reasons. First, it substantially expands our addressable market. The Diameter market is projected to grow at a 42% 4-yr CAGR, reaching nearly \$1 billion in 2017. Nearly all of this market opportunity is ahead of us. Combined with our SBC TAM, our addressable market is expected to increase by 50% to nearly \$3 billion in 2017. Second, it strengthens our virtualization strategy, which is directly in line with the current architectural shift taking place toward NFV. We plan to expand and diversify our product portfolio with an integrated, virtualized Diameter and SBC solution. And third, this acquisition accelerates our mobility strategy by adding Diameter Signaling capabilities that are required in all-IP, IMS 4G/LTE networks.

Let's now turn to the highlights for the fourth quarter and full year on slide 5. As I discussed with you during our quarterly calls throughout 2013, we focused on four key metrics that we thought would be foundational to our continued success.

Those key metrics included: SBC growth, customer growth, enterprise and channel growth and achieving full year non-GAAP profitability. I am very pleased to report that we firmly delivered on each of these key commitments. Let's take each in turn on slide 6.

Our SBC revenue grew a very healthy 48% year over year. We won an unprecedented 670 new customers in 2013, many through our new channel initiatives. Today about 80-85% of our new customers in any given quarter are buying SBCs from us, a trend that has been consistent throughout 2013. Our channel and enterprise efforts clearly paid off this year. Recall that our Channel Program, Sonus Partner Assure, was only launched towards the end of 2012, so these results in 2013 are very encouraging. 27% of our product revenue was derived from the enterprise segment and 20% of it from the channel.

Now let's turn to slides 7 and 8. I'm particularly thrilled to show you the progress on these two slides which demonstrate a key inflection point for Sonus. Let me explain why this is so important. When I joined Sonus just over 3 years ago, we were a Gateway company, with an aspiration to enter the SBC market. Today, we are an SBC company, and from this point forward, we build off that platform to become increasingly strategic to all of our customers and partners. We are no longer transforming Sonus, we are transformed.

Furthermore, just think about this mathematically for a moment. For three years, we have had to drive our growth engine to scale while absorbing declining revenue from our core business. Mathematically, that is a huge headwind for top line revenue. Crossing the 50% mark with our growth engine, that headwind now becomes a tailwind. While our revenue growth implied in our guidance is still modest, I expect that will become far more substantial as we continue to focus on our SBC and diameter growth while managing the remainder of the Gateway market.

Turning to Slide 8, I want to leave you with this forecast – we expect that for the full year 2014, for the first time ever, more than half of our total revenue will come from our SBC business. Our progress to date gives me strong confidence that we can quickly respond to changes in the marketplace, and gain share.

Turning to Slide 9, you see our SBC product portfolio. We are second to none on both the breadth of our SBC product as well as the integration in the Lync environment. We launched our software version in Q4 and are pleased to report that we have already been booking orders. We will be driving to a full cloud scale out in 2014, positioning Sonus as the leader in SDN with the only common code base software SBC. This is an incredibly strategic point of differentiation, given the trends toward cloud architectures that are really the underpinnings of the drive to SDN. Additionally, we will be announcing more innovation next week while at Mobile World Congress, so please stay tuned as this innovation accelerates further.

Let me provide some context around our SDN strategy, and we will expand on this during the upcoming Investor Day in March. SDN is really all about re-architecting the stack, and unleashing a cloud based intelligence layer to control what is quickly becoming a “programmable IP transport layer”. Sonus was born for this mission. Think about this. The day we designed our first Gateway, we set out to “extract voice as an application” (before the word application even meant what it does today), and to allow that application to run at carrier grade over an IP transport layer. That is what we did for voice.....and we did it with an architecture that uses a policy engine (we call it a PSX) that manages the intelligence required to configure routing tables and protect the quality of service expected for voice. Voice was the ONLY real time application that existed, so we were a voice company. But in fact, we were a real time communications company from day one. So as the world moves to things like WebRTC (real time communications), the puck is coming to us. We couldn't be better positioned, having scaled massive real time networks using a cloud friendly architecture of policy overlaying the transport layer. We were ready for a cloud-based architecture for real time communications before the word cloud meant what it does today.

So when I state that I have never felt like I had a better hand commercially in my life, despite almost three decades in the communications sector, I'm telling you that I think that Sonus is ideally positioned to help global, Tier 1 Service Providers as well as enterprises make this critical transition to session-, cloud-based communications. As the fixed and mobile worlds collide, and make no mistake they are colliding, Fixed-Mobile Convergence will further play to our strengths, and we are driving our technology strategies in a way to leverage that trend.

We are also positioned to help our partners, so let's turn to Slide 10 and discuss a few of those. We show some examples here of companies that we are currently working with to drive this new layer of intelligence, both up the stack to Lync and BroadCloud, and down into the IP Transport Layer with Juniper. Going forward, we hope to establish even broader partnerships throughout the new cloud stack, and as we build those relationships, we will keep you posted.

Let's turn to slide 11. Sonus is fulfilling its goal to be an industry leader. Our financial, technological and commercial progress is becoming clear and is helping us attract world class leaders like these to our leadership team and board. Mark Greenquist joined as our CFO in November. He brings a unique blend of financial savviness and commercial instinct that makes him an invaluable part of our senior leadership team. As you saw on Tuesday, we also announced two new board members, Matt Bross and Dick Lynch. Matt and Dick have been CTOs at several of the world's biggest and most advanced Tier 1 service providers. They bring a wealth of technological and commercial insight that will be invaluable to Sonus as we extend our growth strategy into mobile and continue to build our relationships with Tier 1s around the globe. Pamela Reeve joined our board in August and also has finely honed commercial instincts and has already proven to be an invaluable addition to our Board.

I've said since the first day I joined that getting the right people on the bus was a priority for me in leading this company. We have done this methodically over the

past few years, bringing in the best and brightest talent we can find. I feel very good about the team we have assembled and believe there is no better group out there who can successfully deliver the future of cloud-based communications.

Before handing off to Mark, I thought it would be helpful to look at the framework we use when considering how to maximize shareholder value. Slide 12 shows a framework that starts with a healthy business that is generating cash, is profitable and has the ability to thoughtfully determine how best to put that capital to work.

We can start by checking the box that Sonus is, indeed, generating cash from operations, and we expect this to continue to be the case going forward. We have reached this point, while simultaneously investing in our business to maximize our organic growth potential. We have been able to reallocate spending from the core business to growth areas while maintaining a fairly steady cost structure.

We also have looked outside of the company to acquire businesses and technologies that would help accelerate our growth. NET and PT are two great examples of this, and we'll continue to consider opportunistic growth acquisitions that meet our strategic areas of focus.

Finally, when looking to maximize shareholder value, we have returned capital to our shareholders, currently in the form of a stock buyback. This has also allowed us to also begin reducing the concentration of our largest shareholders in an orderly fashion. We believe that continued solid execution, coupled with prudent, disciplined deployment of capital, is the right way to go about maximizing shareholder value. So with that, I'll hand it off to Mark for more discussion on the quarter and our outlook.

MARK GREENQUIST, CHIEF FINANCIAL OFFICER

Good morning. Before diving into the details, I've been asked on many occasions by investors and analysts, some of you on this call, what was behind my decision to

join Sonus. So allow me to briefly provide some color for you. To start, I have known Ray for a number of years now and have been watching his journey at Sonus closely. I also have previously worked with Todd Abbott when we were both at Symbol Technologies, so I felt I had a good handle on two of the key people that I would be working closely with. I had an opportunity to meet others in the leadership team and board. My observation is that this team has done a truly heroic job transforming Sonus. Reaching the key inflection point as they now have where the growth engine is larger than the core business tells me that the future is indeed very bright for Sonus. In my opinion, there remains a disconnect between the company's current market value and the upside potential which I believe exists. In short, I am extremely happy to be the newest member of Ray's management team and look forward to helping to take Sonus to the next level.

Now, turning to slide 14 for the financial highlights. In the interest of time, I'll keep my remarks primarily focused on the fourth quarter of 2013 compared to the fourth quarter of 2012.

Total revenue for the fourth quarter was \$76.2 million, up 1% from the fourth quarter of 2012. While that might not sound like much growth, if you look underneath it you will see strong progress on the SBC side of the business.

SBC product revenue of \$32.2 million grew 56% compared to the fourth quarter of 2012. SBC total revenue, including products, maintenance and professional services, was \$41.6 million, up 59% over this same period.

Before I go into further details on our financials, I would like to point out, that the following are non-GAAP numbers that exclude stock-based compensation, acquisition costs, restructuring charges, impairment charges, incremental depreciation due to acquisition accounting and write off and amortization of intangible assets.

Fourth quarter total gross margins were 64.7%, 570 basis points higher than the fourth quarter of 2012. For the full year, we experienced a 360 basis point improvement in total gross margins to 63.6%. While gross margins may fluctuate, quarter to quarter, based upon software content and product mix, we still expect gradual improvement as more of our revenue comes from standard, scalable SBC products which do not bear the burden of custom and complex customer requirements as characterized by our media gateway business.

Operating expenses for the fourth quarter were \$42.8 million compared to \$42 million in the fourth quarter of 2012, with increased compensation costs and higher commissions accounting for the year over year increase.

Net income for the quarter was \$6.8 million or two cents per diluted share, compared to net income of \$1.8 million or one cent per diluted share in the fourth quarter of 2012.

Cash and investments were \$268 million excluding the impact of our Q413 share repurchase program, and \$246 including the share repurchases made during the quarter. Our share repurchase activity for the year is spelled out clearly in today's press release.

Balance sheet trends are healthy with accounts receivables and inventories declining year over year, despite higher revenue.

Slide 15 provides a graphical view of some of these highlights I just spoke to. The momentum in our business is very clear.

Let's turn to slide 16 for our first quarter outlook. Revenue for the first quarter from standalone Sonus is expected to be approximately \$67 million. Including the partial quarter impact of PT, we expect total company revenue for Q1 of approximately \$70 million, up 11% over Q1 2013.

SBC total revenue for the first quarter is expected to be approximately \$33M, a 10% increase over Q1 2013. Gross margin for the first quarter, including the impact of PT, is expected to be approximately 63%, up 200 basis points over Q113. Opex is expected to be approximately \$44 million. As is typical, the first quarter is the high water mark for opex given the added burden of HR related benefits and taxes and the added cost of key industry events and conferences such as our investor day and participation in Mobile World Congress, both of which occur in Q1 of this year. Non-GAAP fully diluted EPS is projected at a penny loss both with and without the impact of PT in Q1. Our diluted shares outstanding are projected at 266 million, prior to the impact of any potential share repurchases in the first quarter.

Turning to slide 17, our full year revenue for Sonus on a stand-alone basis is expected to be roughly \$285 million. With PT, we expect total revenue to be approximately \$300 million, an 8% increase over 2013. PT's contribution is comprised primarily of SS7 signaling revenue and a small contribution from Diameter signaling revenue, which we estimate to be about \$3 million. SBC total revenue is expected to be approximately \$165 million, or \$168 million including the Diameter-only revenue from PT. This represents an increase of 29% over the prior year. EPS on a standalone basis is expected to be approximately 6 cents for the full year. Including PT, we expect EPS of 5 cents for the full year, which is consistent with the outlook we provided when we announced the transaction of one to two cents dilution for the full year 2014. Finally, diluted shares outstanding are expected to be 264.5 million, assuming the remaining share repurchase program is completed in 2014. I'll now turn it back to Ray for his closing remarks.

RAY DOLAN, PRESIDENT AND CEO

Let's wrap up starting on slide 19. A lot of work remains ahead of us to demonstrate meaningful operating leverage, which I'm convinced we will do over time. But as I stand back and evaluate our progress, I see a very different company today than I did three years ago. I see a company that has delivered consistent, strong SBC growth in spite of the steep hill we were climbing from a declining

gateway business. I see a company that has established a vibrant channel and has extended its go-to-market to the enterprise segment when many were skeptical that it could be done so successfully. I see a company that has started to make real financial progress and has lived up to its commitment to deliver non-GAAP profitability for the full year. And while admittedly just a start, it's an important pivot point for a company that in its early days won the commercial battle but lost the war in bringing that commercial success to the bottom line. Today, we are poised to do both. I also step back and see a company that is becoming increasingly strategic to its customers and partners. This is perhaps the aspect of our transformation that I am most excited about. Today, we are engaged in a strategic way with our customers that is almost unprecedented. I attribute this in large part to the tenacious focus that our team has demonstrated in delivering the market's broadest, most innovative portfolio and roadmap, working in concert with our customers to deliver the industry's next generation of virtualized, cloud-based networking.

PATTI LEAHY, VICE PRESIDENT, INVESTOR RELATIONS

Thank you for joining us this morning. We look forward to seeing many of you at our investor and analyst day on March 13th. My contact details are included in today's presentation. Please feel free to call or email me for more information about our investor day, or for any follow on questions from today's conference call.