Needham Growth Conference

Mark Greenquist, CFO

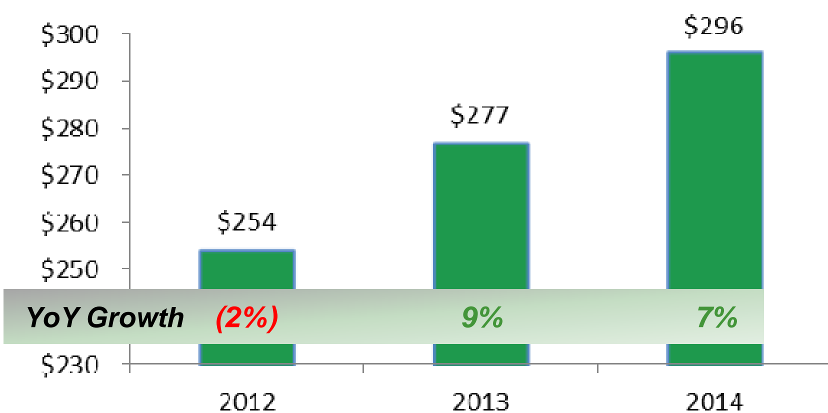
January 13, 2016

Cautionary Note Regarding Forward-Looking Statements

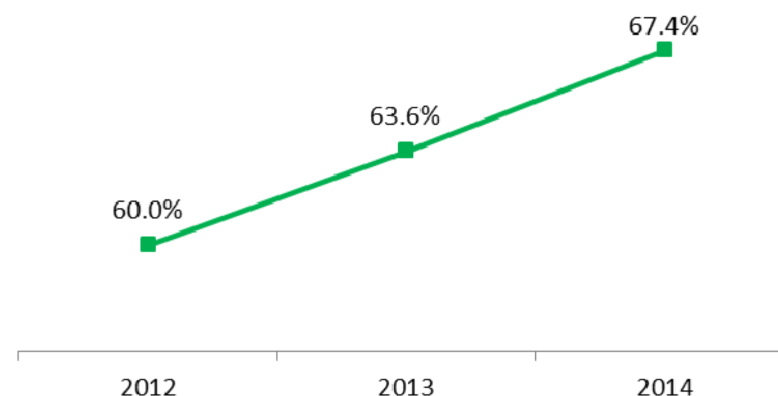
- The information in this presentation contains “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, which are subject to a number of risks and uncertainties. All statements other than statements of historical facts contained in this presentation, including statements in the sections “A Transition is Underway” and “Recap of YTD Q3 ’15” of this presentation; and statements regarding our future results of operations and financial position, industry developments, business strategy, plans and objectives of management for future operations are forward-looking statements. Without limiting the foregoing, the words “anticipates”, “believes”, “could”, “estimates”, “expects”, “expectations”, “intends”, “may”, “plans”, “seeks”, “projects” and other similar language, whether in the negative or affirmative, are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words.
- Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, the timing of customer purchasing decisions and our recognition of revenues; economic conditions; adjustments identified in the course of the Company’s quarter-end accounting review; our ability to recruit and retain key personnel; difficulties supporting our strategic focus on channel sales; difficulties retaining and expanding our customer base; difficulties leveraging market opportunities; the impact of cost reduction and restructuring activities; our ability to realize benefits from the Network Equipment Technologies, Inc. (NET) and Performance Technologies, Incorporated (PT) acquisitions and the Treq Labs, Inc. (Treq) asset acquisition; the effects of disruption from the NET, PT and Treq transactions, making it more difficult to maintain relationships with employees, customers, business partners or government entities; the success implementing the integration strategies of NET, PT and Treq assets; litigation; actions taken by significant stockholders; difficulties providing solutions that meet the needs of customers; market acceptance of our products and services; rapid technological and market change; our ability to protect our intellectual property rights; our ability to maintain partner, reseller, distribution and vendor support and supply relationships; higher risks in international operations and markets; the impact of increased competition; currency fluctuations; the impact of the reverse split of our common stock and changes in the market price of our common stock; and/or failure or circumvention of our controls and procedures. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We therefore caution you against relying on any of these forward-looking statements. Important factors that could cause actual results to differ materially from those in these forward-looking statements are discussed in Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, Part I, Item 3 “Quantitative and Qualitative Disclosures About Market Risk,” and Part II, Item 1A “Risk Factors” in the Company’s most recent Quarterly Report on Form 10-Q. Any forward-looking statement made by us in this presentation speaks only as of the date of this presentation. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.
- Sonus is a registered trademark of Sonus Networks, Inc. All other Company and product names may be trademarks of the respective companies with which they are associated.

2012- 2014 Financial Profile

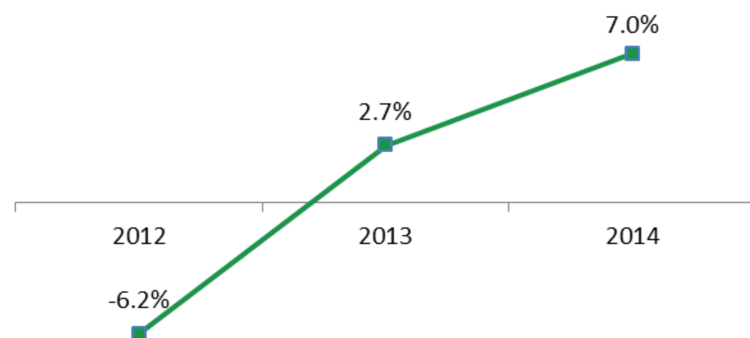
Revenue Growing ($M)



Total Gross Margins[1]



Operating Margins[1]

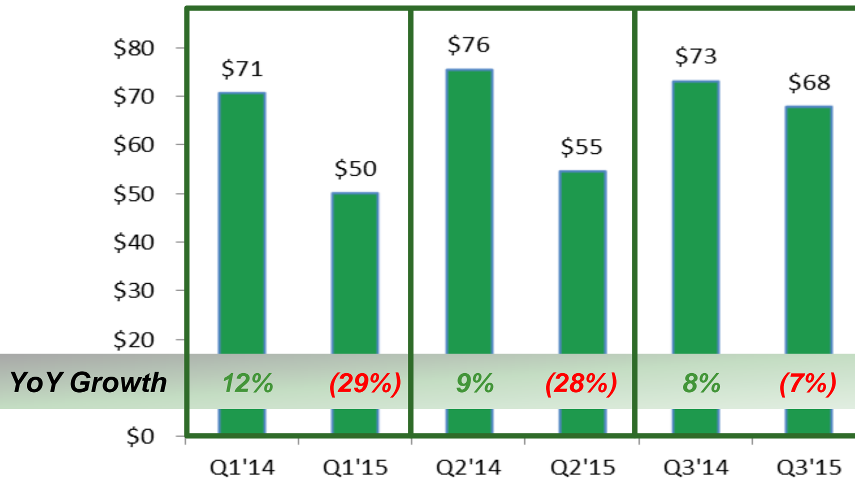


Earnings/(Loss) Per Share[1]

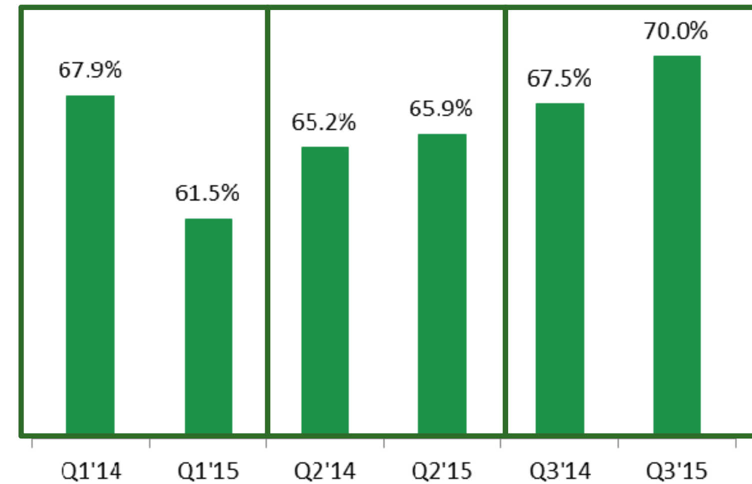
1) Non-GAAP financial measures.

Q1'14 through Q3'15

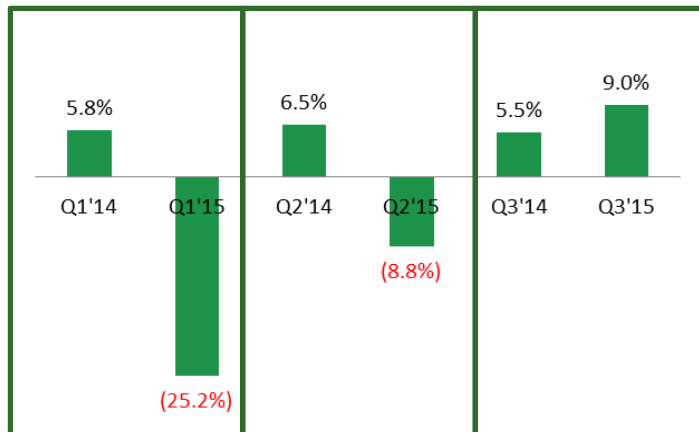
Revenue Growing ($M)



Total Gross Margins[1]



Operating Margins[1]



Earnings/(Loss) Per Share[1]

1) Non-GAAP financial measures.

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Recap of YTD Q3'15

- Results reflect lower spending environment in 1H'15 - not competitive losses
- Restructuring program was quickly implemented during 2Q'15
- Sonus focused on revenue recovery in 2H'15 and continued to invest in growth opportunities
- 3rd quarter recovered to near 2014 levels
- Sonus remains well-positioned

Ongoing customer engagements and RFP activity support our belief that Sonus' technology is aligned with the technology strategies of its customers

A Transition Is Underway

The Current IP Network

Hardware-Centric

Rigid Topology and Architecture

A Network per service

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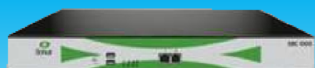
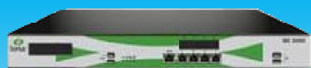
Sonus SBC Portfolio

Sonus SBC 1000	Sonus SBC 2000	Sonus SBC 5110	Sonus SBC 5210	Sonus SBC 7000
▪ 160 Sessions ▪ SBA ▪ Media Interworking	▪ 600 Sessions ▪ SBA ▪ Media Interworking	▪ 10,000 Sessions ▪ High Availability ▪ Media Interworking	▪ 64,000 Sessions ▪ High Availability ▪ Media Interworking	▪ 150,000 Sessions ▪ High Availability ▪ Media Interworking
				

Single Instance

Sonus SBC SWe

Multi-Instance

SMB ***Enterprise*** ***Large Enterprise*** ***Service Provider***

Most Complete SBC Portfolio, from the Enterprise Branch to the Service Provider Cloud

Sonus Customers

Enterprise

Service Providers

A Transition Is Underway

The Current IP Network

Hardware-Centric
Rigid Topology and Architecture
A Network per service

The Evolving IP Network

Software-Centric (NFV, Cloud)
Fluid Topology and Architecture (SDN)
Single Flexible Network for all services

Sonus Positioned for Software-Centric Cloud Topologies

Sonus leverages a common, hardened code base across its hardware and software portfolios, providing customers an easy migration path from today's appliance/hardware based networks to NFV and the Cloud

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Sonus Is Strategically Positioned

Sonus Leading the Industry to Virtualization

Sonus Enables Network Efficiencies

Sonus Trusted in the World's Largest SP Networks

Sonus DNA in Security, Policy, Interworking, Signaling and Scale Future

Thank You

Q&A

Discussion of Non-GAAP Financial Measures

Sonus management uses a number of different financial measures, both GAAP and non-GAAP, in analyzing and assessing the overall performance of the business, making operating decisions, planning and forecasting future periods, and determining payments under compensation programs. Our annual financial plan is prepared both on a GAAP and non-GAAP basis, and the non-GAAP annual financial plan is approved by our board of directors. Continuous budgeting and forecasting for revenue and expenses are conducted on a non-GAAP basis (in addition to GAAP) and actual results on a non-GAAP basis are assessed against the annual financial plan. We consider the use of non-GAAP financial measures helpful in assessing the core performance of our continuing operations and liquidity, and when planning and forecasting future periods. By continuing operations we mean the ongoing results of the business excluding certain expenses and credits, including, but not limited to: cost of product revenue related to the fair value write-up of acquired inventory, stock-based compensation, amortization of intangible assets, impairment of intangible assets, the write-off of prepaid royalties for software licenses, depreciation expense related to an abandoned facility, depreciation expense related to the fair value write-up of acquired property and equipment, divestiture costs, acquisition-related expense, restructuring and other income arising from certain transactions. While our management uses non-GAAP financial measures as a tool to enhance their understanding of certain aspects of our financial performance, our management does not consider these measures to be a substitute for, or superior to, GAAP measures. In addition, our presentations of these measures may not be comparable to similarly titled measures used by other companies. These non-GAAP financial measures should not be considered alternatives for, or in isolation from, the financial information prepared and presented in accordance with GAAP.

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

As part of the assessment of the assets acquired and liabilities assumed in connection with the PT acquisition, we were required to increase the aggregate fair value of acquired inventory by $1.8 million. The acquired inventory was charged to cost of product revenue as it was sold to end customers. We believe that excluding the incremental cost of product revenue resulting from the fair value write-up of this acquired inventory facilitates the comparison of our operating results to our historical results and to other companies in our industry.

Discussion of Non-GAAP Financial Measures

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

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

In 2013 we recorded $0.6 million of expense for the write-off of an intellectual property intangible asset which we determined was impaired. We believe that excluding the impairment of intangible assets facilitates the comparison of our financial results to our historical operating results and to other companies in our industry.

In 2012 we wrote off $7.1 million of prepaid royalties for software licenses related to products from which we did not expect to derive future revenues. We believe that excluding the write-off of these prepaid royalties facilitates the comparison of our product gross margins to our historical operating results and to other companies in our industry.

Discussion of Non-GAAP Financial Measures

During the second quarter of 2015, we reached an agreement with the landlord of one of our previously restructured facilities to vacate the facility without penalty or future payments. As a result, we were able to vacate the facility earlier than originally planned. In connection with this settlement, we recorded incremental depreciation expense to account for the change in estimated life of the fixed assets related to this facility. We believe that excluding this incremental depreciation expense facilitates the comparison of our financial results to our historical operating results and to other companies in our industry.

As part of the assessment of the assets acquired and liabilities assumed in connection with the NET acquisition, we were required to increase the aggregate fair value of acquired property and equipment by $2.0 million. We believe that excluding the incremental depreciation expense resulting from the fair value write-up of this acquired property and equipment facilitates the comparison of our financial results to our historical operating results and to other companies in our industry.

In 2014 we sold the Multi-Protocol Server (MPS) business that we had acquired in connection with the acquisition of PT. We incurred $0.4 million of transaction costs related to this divestiture. We do not consider these divestiture costs to be related to our continuing operations. We believe that excluding divestiture costs facilitates the comparison of our financial results to our historical operating results and to other companies in our industry.

We consider certain transition, integration and other acquisition-related costs to be unpredictable and dependent on a significant number of factors that may be outside of our control. We do not consider these acquisition-related costs to be related to the continuing operations of the acquired business or the Company. In addition, the size, complexity and/or volume of an acquisition, which often drives the magnitude of acquisition-related costs, may not be indicative of such future costs. We believe that excluding acquisition-related costs facilitates the comparison of our financial results to our historical operating results and to other companies in our industry.

Discussion of Non-GAAP Financial Measures

We have recorded restructuring expense to streamline operations and reduce operating costs by closing and consolidating certain facilities and reducing our worldwide workforce. We review our restructuring accruals regularly and record adjustments (both expense and credits) to these estimates as required. We believe that excluding restructuring expense and credits facilitates the comparison of our financial results to our historical operating results and to other companies in our industry.

In the first quarter of 2014, we recorded $2.25 million of other income related to the settlement of a litigation matter in which we recovered a portion of our losses related to the impairment of certain prepaid royalties for software licenses which we had written off in 2012 (see previous discussion). We believe that excluding the other income arising from this settlement facilitates the comparison of our results to our historical results and other companies in our industry.

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

Quarterly GAAP to Non-GAAP Reconciliation

	Q1'14	Q2'14	Q3'14	Q1'15	Q2'15	Q3'15
GAAP total gross margin	65.6%	62.6%	65.4%	58.3%	62.9%	67.4%
Stock-based compensation expense	0.5%	0.7%	0.7%	0.9%	0.9%	0.7%
Amortization of intangible assets	0.9%	0.9%	0.9%	2.3%	2.1%	1.9%
Fair value write-up of acquired inventory	0.9%	1.0%	0.5%	0.0%	0.0%	0.0%
Non-GAAP total gross margin	67.9%	65.2%	67.5%	61.5%	65.9%	70.0%
GAAP loss from operations as a percentage of revenue (operating margin)	-8.2%	-6.4%	-6.4%	-37.6%	-27.5%	-2.0%
Fair value write-up of acquired inventory	0.8%	1.1%	0.5%	0.0%	0.0%	0.0%
Stock-based compensation expense	8.2%	9.2%	8.9%	9.6%	12.5%	7.7%
Amortization of intangible assets	1.5%	1.6%	1.6%	3.3%	2.9%	2.6%
Depreciation expense for abandoned facility	0.0%	0.0%	0.0%	0.0%	0.6%	0.5%
Divestiture costs	0.0%	0.5%	0.0%	0.0%	0.0%	0.0%
Acquisition-related expense	1.8%	0.0%	0.0%	0.2%	0.0%	0.0%
Restructuring	1.7%	0.5%	0.9%	-0.7%	2.7%	0.2%
Non-GAAP income (loss) from operations as a percentage of revenue (operating margin)	5.8%	6.5%	5.5%	-25.2%	-8.8%	9.0%

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Quarterly GAAP to Non-GAAP Reconciliation

(in thousands, except per share amounts)	Q1'14	Q2'14	Q3'14	Q1'15	Q2'15	Q3'15
GAAP Net loss	$ (3,953)	$ (5,497)	$ (5,213)	$ (19,359)	$ (15,343)	$ (1,896)
Fair value write-up of acquired inventory	615	803	364	-	-	-
Stock-based compensation expense	5,774	6,938	6,501	4,820	6,809	5,273
Amortization of intangible assets	1,029	1,178	1,195	1,647	1,591	1,737
Depreciation expense for abandoned facility	-	-	-	-	324	322
Divestiture costs	-	405	30	-	-	-
Acquisition-related expense	1,306	-	-	107	24	-
Restructuring	1,169	391	673	(339)	1,487	158
Litigation settlement - prepaid licenses	(2,250)	-	-	-	-	-
Non-GAAP net income (loss)	$ 3,690	$ 4,218	$ 3,550	$ (13,124)	$ (5,108)	$ 5,594
Diluted earnings per share or (loss) per share						
GAAP	$ (0.07)	$ (0.11)	$ (0.11)	$ (0.39)	$ (0.31)	$ (0.04)
Non-GAAP	$ 0.07	$ 0.08	$ 0.07	$ (0.27)	$ (0.10)	$ 0.11
Shares used to compute diluted earnings per share or (loss) per share						
GAAP shares used to compute loss per share	53,080	49,424	49,291	49,423	49,484	49,625
Non-GAAP shares used to compute diluted earnings per share or (loss) per share	53,804	50,031	50,260	49,423	49,484	49,696

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Annual GAAP to Non-GAAP Reconciliation

	2012	2013	2014
GAAP total gross margin	56.1%	62.3%	65.3%
Stock-based compensation expense	0.4%	0.4%	0.6%
Amortization of intangible assets	0.7%	0.9%	0.9%
Write-off of prepaid royalties for software licenses	2.7%	0.0%	0.0%
Depreciation expense - fair value write-up of acquired property and equipment	0.1%	0.0%	0.0%
Fair value write-up of acquired inventory	0.0%	0.0%	0.6%
Non-GAAP total gross margin	60.0%	63.6%	67.4%
GAAP loss from operations as a percentage of revenue (operating margin)	-19.1%	-7.6%	-5.8%
Fair value write-up of acquired inventory	0.0%	0.0%	0.6%
Stock-based compensation expense	3.5%	6.5%	8.1%
Amortization of intangible assets	1.1%	1.6%	1.6%
Impairment of intangible assets	0.0%	0.2%	0.0%
Write-off of prepaid royalties for software licenses	2.8%	0.0%	0.0%
Depreciation expense - fair value write-up of acquired property and equipment	0.3%	0.0%	0.0%
Divestiture costs	0.0%	0.0%	0.1%
Acquisition-related expense	2.2%	0.0%	0.5%
Restructuring	3.0%	2.0%	1.9%
Non-GAAP income (loss) from operations as a percentage of revenue (operating margin)	-6.2%	2.7%	7.0%

Annual GAAP to Non-GAAP Reconciliation

(in thousands, except per share amounts)	2012	2013	2014
GAAP Net loss	$ (50,169)	$ (22,119)	$ (16,855)
Fair value write-up of acquired inventory	-	-	1,782
Stock-based compensation expense	9,003	17,873	23,914
Amortization of intangible assets	2,773	4,546	4,597
Impairment of intangible assets	-	600	-
Write-off of prepaid royalties for software licenses	7,083	-	-
Depreciation expense - fair value write-up of acquired property and equipment	766	-	-
Divestiture costs	-	-	435
Acquisition-related expense	5,496	93	1,558
Restructuring	7,675	5,411	5,625
Litigation settlement - prepaid licenses	-	-	(2,250)
Non-GAAP net income (loss)	$ (17,373)	$ 6,404	$ 18,806
Diluted earnings per share or (loss) per share			
GAAP	$ (0.90)	$ (0.40)	$ (0.34)
Non-GAAP	$ (0.31)	$ 0.11	$ 0.37
Shares used to compute diluted earnings per share or (loss) per share			
GAAP shares used to compute loss per share	56,018	55,686	50,245
Non-GAAP shares used to compute diluted earnings per share or (loss) per share	56,018	56,145	50,996

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