

SONUS NETWORKS INC

FORM 10-Q (Quarterly Report)

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Industry	Communications & Networking
Sector	Technology
Fiscal Year	12/31

**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 September 30, 2016

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

For the transition period from to

Commission File Number 001-34115

SONUS NETWORKS, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

04-3387074

(I.R.S. Employer Identification No.)

4 Technology Park Drive, Westford, Massachusetts 01886

(Address of principal executive offices) (Zip code)

(978) 614-8100

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller
reporting company)

Smaller reporting company

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 October 24, 2016, there were 49,436,925 shares of the registrant's common stock, \$0.001 par value, outstanding.

SONUS NETWORKS, INC.
FORM 10-Q
QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016
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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 results of operations and financial position, business strategy, plans and objectives of management for future operations, plans for future cost reductions and plans for future product 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 difficult to predict. 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, Items 2 and 3, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosures About Market Risk," respectively, and Part II, Item 1A, "Risk Factors," of this Quarterly Report on Form 10-Q. Also, 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.

References in this Quarterly Report on Form 10-Q to "Sonus," "Sonus Networks," "Company," "we," "us," and "our" are to Sonus Networks, Inc. and its subsidiaries, collectively, unless the context requires otherwise.

PART I FINANCIAL INFORMATION**Item 1. Financial Statements**

SONUS NETWORKS, INC.
Condensed Consolidated Balance Sheets
(in thousands, except share and per share data)
(unaudited)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 32,566	\$ 50,111
Marketable securities	49,829	58,533
Accounts receivable, net of allowance for doubtful accounts of \$0 at September 30, 2016 and \$10 at December 31, 2015	44,169	51,533
Inventory	20,811	23,111
Other current assets	13,237	11,853
Total current assets	160,612	195,141
Property and equipment, net	13,077	13,620
Intangible assets, net	38,794	26,087
Goodwill	52,136	40,310
Investments	38,603	33,605
Deferred income taxes	1,797	1,879
Other assets	4,834	2,249
	<u>\$ 309,853</u>	<u>\$ 312,891</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 4,331	\$ 5,949
Accrued expenses	22,990	31,963
Current portion of deferred revenue	37,896	38,716
Current portion of long-term liabilities	1,029	821
Total current liabilities	66,246	77,449
Deferred revenue	8,465	7,374
Deferred income taxes	2,806	2,282
Contingent consideration - acquisition	10,000	—
Other long-term liabilities	1,675	2,760
Total liabilities	89,192	89,865
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, \$0.01 par value per share; 5,000,000 shares authorized, none issued and outstanding	—	—
Common stock, \$0.001 par value per share; 120,000,000 shares authorized; 49,399,271 shares issued and outstanding at September 30, 2016; 49,473,789 shares issued and outstanding at December 31, 2015	49	49
Additional paid-in capital	1,249,095	1,240,803
Accumulated deficit	(1,034,543)	(1,023,242)
Accumulated other comprehensive income	6,060	5,416
Total stockholders' equity	220,661	223,026
	<u>\$ 309,853</u>	<u>\$ 312,891</u>

See notes to the unaudited condensed consolidated financial statements.

SONUS NETWORKS, INC.
Condensed Consolidated Statements of Operations
(in thousands, except per share data)
(unaudited)

	Three months ended		Nine months ended	
	September 30, 2016	September 25, 2015	September 30, 2016	September 25, 2015
Revenue:				
Product	\$ 38,601	\$ 42,230	\$ 108,719	\$ 94,137
Service	26,410	25,632	76,300	78,571
Total revenue	65,011	67,862	185,019	172,708
Cost of revenue:				
Product	12,285	13,158	35,230	36,075
Service	9,140	8,992	27,572	27,277
Total cost of revenue	21,425	22,150	62,802	63,352
Gross profit	43,586	45,712	122,217	109,356
Operating expenses:				
Research and development	18,230	19,335	53,005	58,642
Sales and marketing	18,103	16,507	50,890	53,812
General and administrative	8,998	11,074	26,656	30,742
Acquisition-related	951	—	951	131
Restructuring	1,620	158	1,620	1,306
Total operating expenses	47,902	47,074	133,122	144,633
Loss from operations	(4,316)	(1,362)	(10,905)	(35,277)
Interest income, net	209	82	590	90
Other income, net	803	133	916	183
Loss before income taxes	(3,304)	(1,147)	(9,399)	(35,004)
Income tax provision	(427)	(749)	(1,902)	(1,594)
Net loss	\$ (3,731)	\$ (1,896)	\$ (11,301)	\$ (36,598)
Loss per share:				
Basic	\$ (0.08)	\$ (0.04)	\$ (0.23)	\$ (0.74)
Diluted	\$ (0.08)	\$ (0.04)	\$ (0.23)	\$ (0.74)
Shares used to compute loss per share:				
Basic	49,402	49,625	49,436	49,512
Diluted	49,402	49,625	49,436	49,512

See notes to the unaudited condensed consolidated financial statements.

SONUS NETWORKS, INC.
Condensed Consolidated Statements of Comprehensive Loss
(in thousands)
(unaudited)

	Three months ended		Nine months ended	
	September 30, 2016	September 25, 2015	September 30, 2016	September 25, 2015
Net loss	\$ (3,731)	\$ (1,896)	\$ (11,301)	\$ (36,598)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	49	59	484	11
Unrealized (loss) gain on available-for sale marketable securities, net of tax	(112)	33	160	113
Reclassification adjustment for realized losses included in net loss	—	—	18	—
Other comprehensive income (loss), net of tax	(63)	92	662	124
Comprehensive loss, net of tax	\$ (3,794)	\$ (1,804)	\$ (10,639)	\$ (36,474)

See notes to the unaudited condensed consolidated financial statements.

SONUS NETWORKS, INC.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Nine months ended	
	September 30, 2016	September 25, 2015
Cash flows from operating activities:		
Net loss	\$ (11,301)	\$ (36,598)
Adjustments to reconcile net loss to cash flows provided by operating activities:		
Depreciation and amortization of property and equipment	5,914	9,646
Amortization of intangible assets	5,493	4,975
Stock-based compensation	15,464	16,902
Loss on disposal of property and equipment	29	112
Gain on sale of domain name	(800)	—
Deferred income taxes	763	514
Changes in operating assets and liabilities:		
Accounts receivable	9,287	11,623
Inventory	2,756	(2,076)
Other operating assets	(798)	1,282
Accounts payable	(2,904)	(2,329)
Accrued expenses and other long-term liabilities	(12,032)	(5,733)
Deferred revenue	(1,823)	3,379
Net cash provided by operating activities	<u>10,048</u>	<u>1,697</u>
Cash flows from investing activities:		
Purchases of property and equipment	(3,637)	(6,417)
Business acquisition, net of cash acquired	(20,669)	(10,897)
Purchases of marketable securities	(62,468)	(25,577)
Maturities/sales of marketable securities	65,327	49,328
Proceeds from the sale of domain name	800	—
Net cash (used in) provided by investing activities	<u>(20,647)</u>	<u>6,437</u>
Cash flows from financing activities:		
Proceeds from sale of common stock in connection with employee stock purchase plan	1,360	2,378
Proceeds from exercise of stock options	135	1,757
Payment of tax withholding obligations related to net share settlements of restricted stock awards	(1,538)	(2,314)
Repurchase of common stock	(7,130)	(6,083)
Principal payments of capital lease obligations	(33)	(62)
Net cash used in financing activities	<u>(7,206)</u>	<u>(4,324)</u>
Effect of exchange rate changes on cash and cash equivalents	260	(194)
Net (decrease) increase in cash and cash equivalents	<u>(17,545)</u>	<u>3,616</u>
Cash and cash equivalents, beginning of year	50,111	41,157
Cash and cash equivalents, end of period	<u>\$ 32,566</u>	<u>\$ 44,773</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 27	\$ 46
Income taxes paid	\$ 1,024	\$ 833
Income tax refunds received	\$ 275	\$ 312
Supplemental disclosure of non-cash investing activities:		
Capital expenditures incurred, but not yet paid	\$ 444	\$ 556
Property and equipment acquired under capital lease	\$ 36	\$ —
Fair value of contingent consideration related to acquisition	\$ 10,000	\$ —

See notes to the unaudited condensed consolidated financial statements.

SONUS NETWORKS, INC.
Notes to Condensed Consolidated Financial Statements
(unaudited)

(1) BASIS OF PRESENTATION

Business

Sonus Networks, Inc. ("Sonus" or the "Company") is a leading provider of networked solutions for communications service providers (e.g., telecommunications, wireless and cable service providers) and enterprises to help them advance, protect and unify their communications and improve collaboration. Sonus helps many of the world's leading communications service providers and enterprises embrace the next generation of Session Initiation Protocol ("SIP") and 4G/LTE (Long Term Evolution)-based solutions, including Voice over IP ("VoIP") video and Unified Communications ("UC") through secure, reliable and scalable Internet Protocol ("IP") networks. Sonus' products include session border controllers ("SBCs"), diameter signaling controllers ("DSCs"), policy/routing servers, network intelligence applications ("VelOS") and are designed to provide network-wide security and other cloud network exchange services, media and signaling gateways and network analytics tools. Sonus products are supported by a global services team with experience in design, deployment and maintenance of some of the world's largest IP networks.

Sonus utilizes both direct and indirect sales channels to reach its target customers. Customers and prospective customers in the service provider space are traditional and emerging communications service providers, including long distance carriers, local exchange carriers, internet service providers, wireless operators, cable operators, international telephone companies and carriers that provide services to other carriers. Enterprise customers and target enterprise customers include financial institutions, retailers, state and local governments, and other multinational corporations.

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").

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, 2015 (the "Annual Report"), which was filed with the SEC on February 23, 2016.

For the year ended December 31, 2015, the Company reported its first, second and third quarters on a 4-4-5 basis, with the quarter ending on the Friday closest to the last day of each third month. Accordingly, the Company's first quarter ended on March 27, 2015, the second quarter ended on June 26, 2015 and the third quarter ended on September 25, 2015. Effective January 1, 2016, the Company is reporting its first, second and third quarters on a month-end basis, such that the first quarter ended on March 31, 2016, the second quarter ended on June 30, 2016 and the third quarter ended on September 30, 2016. The Company's fiscal year will continue to end on December 31.

During the preparation of the Company's consolidated financial statements for the three-month period ended June 26, 2015, the Company identified an error related to the historical foreign translation of depreciation expense on certain foreign fixed assets that resulted in a historical understatement of expense in prior fiscal years totaling \$1.4 million on a cumulative basis. There is no tax effect on these expenses as the amounts were calculated in the appropriate foreign currencies. The Company does not believe this error is material to its previously issued historical consolidated financial statements for any of the periods impacted and accordingly, has not adjusted its historical financial statements. The Company recorded the cumulative impact of the adjustment in the three months ended June 26, 2015. This adjustment resulted in a one-time \$1.4 million overstatement of depreciation expense. The Company does not believe this adjustment is material to its condensed consolidated financial statements for the periods presented.

On September 26, 2016 (the "Taqua Acquisition Date"), the Company acquired Taqua, LLC ("Taqua"), a leading supplier of IP communications systems, applications and services to mobile and fixed operators. The financial results of Taqua are included in the Company's condensed consolidated financial statements starting on the Taqua Acquisition Date.

SONUS NETWORKS, INC.
Notes to Condensed Consolidated Financial Statements (Continued)
(unaudited)

On January 2, 2015 (the "Treq Asset Acquisition Date"), the Company acquired from Treq Labs, Inc. ("Treq") certain assets related to Treq's business of designing, developing, marketing, selling, servicing and maintaining software-defined networking ("SDN") technology, SDN controller software and SDN management software (the "SDN Business"). The financial results of the SDN Business are included in the Company's condensed consolidated financial statements starting on the Treq Asset Acquisition Date.

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 either the three or nine months ended September 30, 2016 .

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Sonus and its wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates and Judgments

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and judgments relied upon in preparing these 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 assets and goodwill valuations, including impairments, legal contingencies and recoverability of Sonus' net deferred tax assets and the related valuation allowances. Sonus regularly assesses these estimates and records changes in estimates in the period in which they become known. Sonus bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, which include cash equivalents, marketable securities, investments, accounts receivable, accounts payable and other long-term liabilities, approximate their fair values.

Operating Segments

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

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"), which amends the guidance in Accounting Standards Codification ("ASC") 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of ASU 2016-15 is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. ASU 2016-15 adds or clarifies guidance on eight cash flow issues, including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or certain other debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

the predominance principle. ASU 2016-15 is effective for the Company beginning January 1, 2018 for both interim and annual reporting periods, with early adoption permitted. Entities must apply the guidance retrospectively to all periods presented but may apply it prospectively from the earliest date practicable if retrospective application would be impracticable. The Company is currently assessing the potential impact of the adoption of ASU 2016-15 on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which adds an impairment model that is based on expected losses rather than incurred losses. Under ASU 2016-13, an entity recognizes as an allowance its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. ASU 2016-13 is effective for the Company beginning January 1, 2020 for both interim and annual reporting periods, with early adoption permitted. The Company does not expect the adoption of ASU 2016-13 will have a material impact on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"), which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for the Company beginning January 1, 2017 for both interim and annual reporting periods, with early adoption permitted. The Company is currently assessing the potential impact of the adoption of ASU 2016-09 on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842) Section A - Leases: Amendments to the FASB Accounting Standards Codification* ("ASU 2016-02"), its new standard on accounting for leases. ASU 2016-02 introduces a lessee model that brings most leases onto the balance sheet. The new standard also aligns many of the underlying principles of the new lessor model with those in ASC 606, the FASB's new revenue recognition standard (i.e., those related to evaluating when profit can be recognized). Furthermore, ASU 2016-02 addresses other concerns related to the current leases model. For example, ASU 2016-02 eliminates the current GAAP requirement for an entity to use bright-line tests in determining lease classification. ASU 2016-02 is effective for the Company for both interim and annual periods beginning January 1, 2019. The Company is currently assessing the potential impact of the adoption of ASU 2016-02 on its consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17"), which requires entities to present deferred tax assets and deferred tax liabilities as noncurrent in the condensed consolidated balance sheet. Netting of deferred tax assets and deferred tax liabilities is still required under ASU 2015-17. The ASU is effective for the Company for its annual report of the year ending December 31, 2018 and for interim period reporting beginning January 1, 2019, with early adoption permitted. The Company elected to early-adopt ASU 2015-17 prospectively and accordingly, reclassified its net current deferred tax asset totaling \$1.0 million to its noncurrent net deferred tax asset as of December 31, 2015. No prior periods were retrospectively adjusted. The early adoption of ASU 2015-17 did not have a material impact on the Company's consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments* ("ASU 2015-16"), which eliminates the requirement to restate prior periods to reflect adjustments made to provisional amounts recognized in a business combination. Under ASU 2015-16, an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, rather than retrospectively, as had previously been required. ASU 2015-16 also requires acquirers to present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 was effective for the Company as of January 1, 2016. The adoption of ASU 2015-16 did not have a material impact on the Company's consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory* ("ASU 2015-11"), which simplifies the measurement of inventory by requiring entities to measure most inventory at the lower of cost and net realizable value, replacing the previous requirement to measure most inventory at the lower of cost or market. ASU 2015-11 does not apply to inventories that are measured by using either the last-in, first-out method or the retail inventory method. ASU 2015-11 is effective for the Company for both interim and annual reporting periods beginning January 1, 2017. The adoption of ASU 2015-11 is not expected to have a material impact on the Company's consolidated financial statements.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"), which provides guidelines for determining when and how to disclose going concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. ASU 2014-15 is effective for the Company for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. The adoption of ASU 2014-15 is not expected to have a material impact on the Company's consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, *Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* (a consensus of the FASB Emerging Issues Task Force) ("ASU 2014-12"). ASU 2014-12 clarifies that entities should treat performance targets that can be met after the requisite service period of a share-based payment award as performance conditions that affect vesting. Therefore, an entity would not record compensation expense (measured as of the grant date without taking into account the effect of the performance target) related to an award for which transfer to the employee is contingent on the entity's satisfaction of a performance target until it becomes probable that the performance target will be met. ASU 2014-12 does not contain any new disclosure requirements. ASU 2014-12 was effective for the Company as of January 1, 2016. The adoption of ASU 2014-12 did not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), its final standard on revenue from contracts with customers. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the revenue model to contracts within its scope, an entity identifies the contract(s) with a customer, identifies the performance obligations in the contract, determines the transaction price, allocates the transaction price to the performance obligations in the contract and recognizes revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 applies to all contracts with customers that are within the scope of other topics in the FASB ASC. Certain of ASU 2014-09's provisions also apply to transfers of nonfinancial assets, including in-substance nonfinancial assets that are not an output of an entity's ordinary activities (i.e., property, plant and equipment; real estate; or intangible assets). Existing accounting guidance applicable to these transfers has been amended or superseded. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* ("ASU 2015-14"), which defers the original effective date of interim and annual reporting periods by one year. As a result, the Company will not be required to apply the new revenue standard until annual reporting periods beginning after December 15, 2017. In March 2016, the FASB issued ASU 2016-08, *Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)* ("ASU 2016-08") to clarify certain aspects of the principal-versus-agent guidance in its new revenue recognition standard in response to feedback received from the FASB-International Accounting Standards Board joint revenue recognition transition resource group. ASU 2016-08 clarifies the implementation guidance on principal-versus-agent considerations regarding how an entity determines whether it is a principal or an agent for each specified good or service promised to the customer and how an entity determines the nature of each specified good or service. ASU 2016-08 also provides clarification regarding the application of the principal-versus-agent guidance. In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* ("ASU 2016-10"), which amends certain aspects of the guidance in ASU 2014-09 on identifying performance obligations, including immaterial promised goods or services, shipping and handling activities and identifying when promises represent performance obligations; and licensing implementation guidance, including determining the nature of an entity's promise in granting a license, sales-based and usage-based royalties, restrictions of time, geographical location and use, and renewals of licenses that provide a right to use IP. In May 2016, the FASB issued ASU 2016-11, *Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815)* ("ASU 2016-11"), which rescinds certain SEC guidance from the Codification in response to announcements made by the SEC staff at the Emerging Issues Task Force's March 3, 2016 meeting, and which supersedes certain SEC observer comments on the topics of revenue and expense recognition for freight services in process, accounting for shipping and handling fees and costs, accounting for consideration given by a vendor to a customer and accounting for gas-balancing arrangements upon the adoption of ASU 2014-09. In May 2016, the FASB issued ASU 2016-12, *Revenue from*

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

Contracts with Customers (Topic 606) ("ASU 2016-12"), which amends certain aspects of ASU 2014-09, including regarding collectability, the presentation of sales tax and other similar taxes collected from customers, non-cash consideration, contract modifications and completed contracts at transition. ASU 2016-08, ASU 2016-10, ASU 2016-11 and ASU 2016-12 are effective at the same time as ASU 2014-09 (as amended by ASU 2015-14). The Company is currently assessing the potential impact of the adoption of these ASUs on its consolidated financial statements.

(2) BUSINESS ACQUISITIONS

Taqua, LLC

On the Taqua Acquisition Date, the Company acquired Taqua, a privately-held company. Taqua enables the transformation of software-based service provider networks to deliver next-generation voice, video and messaging services, including VoIP, Voice over Wi-Fi ("VoWiFi") and Voice over Long-Term Evolution ("VoLTE"). The Company believes that the acquisition of Taqua will, among other things, accelerate the Company's mobile strategy by adding a Virtualized Mobile Core ("VMC") Platform and an IP Multimedia Subsystem ("IMS") Service Core and expand the Company's fixed portfolio by adding a Class 5 Softswitch (the T7000) for Network Transformation projects and a Multimedia Controller used in IP Peering applications (the T7100), both of which are complementary to Sonus' current product offerings. In consideration for the acquisition of Taqua, Sonus paid \$19.9 million in cash to the sellers on the Taqua Acquisition Date, net of cash acquired. The Company also entered into an Earn-Out Agreement, dated as of September 26, 2016, with Taqua Holdings, LLC and Jeffrey L. Brawner, the seller representative in the transaction, under which there is the potential for additional cash payments of up to \$65.0 million in the aggregate to the sellers if certain annual revenue thresholds are exceeded as measured annually through 2020. Based on historical sales and probability weighted cash flows related to forecasted sales, the Company recorded \$10.0 million of contingent consideration as of the Taqua Acquisition Date. The Company determined that the estimated fair value of the earn-out at September 30, 2016 equaled its carrying value. Because there are unobservable inputs to the valuation methodology that are significant to the measurement of its fair value, namely, forecasted sales, the Company has categorized the earn-out at Level 3 within the fair value hierarchy. There were no changes to the estimated fair value of the earn-out between the Taqua Acquisition Date and September 30, 2016.

The transaction has been accounted for as a business combination and the financial results of Taqua have been included in the Company's condensed consolidated financial statements for the period subsequent to its acquisition.

As of September 30, 2016, the valuation of acquired assets, identifiable intangible assets and certain accrued liabilities is preliminary. The Company is in the process of investigating the facts and circumstances existing as of the Taqua Acquisition Date in order to finalize its valuation. Based on the preliminary purchase price allocation, the Company recorded \$11.8 million of goodwill, which is primarily due to expected synergies between the combined companies and expanded market opportunities resulting from the expanded product offering portfolio. The goodwill is deductible for tax purposes.

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

Fair value of consideration transferred:	
Cash, net of cash acquired	\$ 19,919
Contingent consideration estimate	10,000
Fair value of total consideration	<u>\$ 29,919</u>
Fair value of assets acquired and liabilities assumed:	
Current assets	3,711
Property and equipment	1,445
Intangible assets:	
Developed technology	14,200
Customer relationships	4,000
Goodwill	11,826
Other noncurrent assets	493
Current liabilities	(5,212)
Long-term liabilities	(544)
	<u>\$ 29,919</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 developed technology and customer relationship intangible assets. The preliminary 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 technology attrition and revenue growth projections. The Company is amortizing the identifiable intangible assets in relation to the expected cash flows from the individual intangible assets over their respective useful lives (see Note 6).

Taqua recorded \$9.2 million of revenue for the nine months ended September 30, 2016 and \$28.3 million of revenue for the year ended December 31, 2015. The Company has not disclosed the amount of revenue or earnings of Taqua since the Taqua Acquisition Date or pro forma financial information, as these amounts are not significant to the Company's consolidated financial statements.

Treq Labs, Inc.

On the Treq Asset Acquisition Date, the Company acquired from Treq the SDN Business. The SDN Business provides solutions that optimize networks for voice, video and UC for both enterprise and service provider customers. In consideration for the acquisition of the SDN Business, Sonus paid \$10.1 million in cash on the Treq Asset Acquisition Date, and an additional consideration payment of \$750,000 on each of July 2, 2015 and January 4, 2016. The Company also entered into an Earn-Out Agreement, dated as of January 2, 2015, with Treq and Karl F. May, the seller representative in the transaction (the "Earn-Out Agreement"), under which the Company agreed to issue up to an aggregate of 1.3 million shares of common stock over a three-year period subsequent to the Treq Asset Acquisition Date if aggregate revenue thresholds of at least \$60 million are achieved by the SDN Business during that period, and up to an aggregate of an additional 2.2 million shares (3.5 million shares in total) if aggregate revenue thresholds of at least \$150 million are achieved by the SDN Business during that period. If the initial revenue thresholds are not met, no shares will be issued. Based on historical and forecasted sales, no incremental contingent consideration was recorded either initially as of the Treq Asset Acquisition Date or through September 30, 2016. Any shares issued pursuant to the Earn-Out Agreement will be issued in reliance on the exemption from registration available under Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"), and will be subsequently registered for resale under the Securities Act by the Company.

The transaction has been accounted for as a business combination. The Company finalized its valuation of the identifiable intangible assets in the second quarter of fiscal 2015. Based on the purchase price allocation, the Company recorded \$1.0 million of goodwill, primarily due to expected synergies between the combined companies and expanded market opportunities.

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Notes to Condensed Consolidated Financial Statements (Continued)
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The goodwill is deductible for tax purposes.

A summary of the purchase consideration for the SDN Business is as follows (in thousands):

Fair value of consideration transferred:	
Cash, net of cash acquired	\$ 11,647
Fair value of assets acquired and liabilities assumed:	
Intangible assets:	
In-process research and development	\$ 9,100
Developed technology	1,500
Goodwill	1,047
	<u>\$ 11,647</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 and developed technology intangible assets. The valuation for each of these intangible assets was based on estimated projections of expected cash flows to be generated by the assets, discounted to the present value at discount rates commensurate with perceived risk. The valuation assumptions take into consideration the Company's estimates of technology attrition and revenue growth projections. During the three months ended March 31, 2016, the Company began to record amortization expense in connection with the in-process research and development intangible assets related to a product that became generally available in that quarter and accordingly, reclassified the asset with a cost basis of \$1.6 million to its developed technology intangible assets. During the three months ended September 25, 2015, the Company began to record amortization expense in connection with certain of the in-process research and development intangible assets related to a product that became generally available in that quarter and accordingly, reclassified the asset with a cost basis of \$7.5 million to its developed technology intangible assets. Accordingly, as of March 31, 2016, the Company no longer had an in-process research and development intangible asset. The Company is amortizing the identifiable intangible assets in relation to the expected cash flows from the individual intangible assets over their respective useful lives (see Note 6).

The Company has not disclosed the amount of revenue or earnings of the SDN Business since the Treq Asset Acquisition Date or pro forma financial information, as these amounts are not significant to the Company's consolidated financial statements.

Acquisition-Related Expenses

Acquisition-related expenses include those expenses related to acquisitions that would otherwise not have been incurred by the Company. These expenses include professional and services fees, such as legal, audit, consulting, paying agent and other fees, as well as cash payments to certain employees of acquired companies in connection with change of control agreements. The amounts recorded in the three and nine months ended September 30, 2016 relate to professional fees in connection with the acquisition of Taqua. The amounts recorded in the nine months ended September 25, 2015 relate to professional fees in connection with the acquisition of the SDN Business. The Company did not record acquisition-related expenses in the three months ended September 25, 2015.

The acquisition-related expenses included in the Company's results of operations for the three and nine months ended September 30, 2016 and September 25, 2015 are as follows (in thousands):

	Three months ended		Nine months ended	
	September 30, 2016	September 25, 2015	September 30, 2016	September 25, 2015
Professional and services fees	\$ 951	\$ —	\$ 951	\$ 131

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(3) 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 income 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 basic and diluted loss per share are as follows (in thousands):

	Three months ended		Nine months ended	
	September 30, 2016	September 25, 2015	September 30, 2016	September 25, 2015
Weighted average shares outstanding—basic	49,402	49,625	49,436	49,512
Potential dilutive common shares	—	—	—	—
Weighted average shares outstanding—diluted	49,402	49,625	49,436	49,512

Options to purchase the Company's common stock, unvested shares of restricted stock, unvested shares of performance-based stock and shares in connection with future purchases under the Company's Amended and Restated 2000 Employee Stock Purchase Plan, as amended (the "ESPP"), totaling 8.2 million shares for the three and nine months ended September 30, 2016 and 8.6 million shares for the three and nine months ended September 25, 2015 have not been included in the computation of diluted loss per share because their effect would have been antidilutive.

(4) CASH EQUIVALENTS AND INVESTMENTS

The Company invests in debt instruments, primarily U.S. government-backed, municipal and corporate obligations, which management believes to be high quality (investment grade) credit instruments.

During the three months ended September 30, 2016, the Company sold \$1.1 million of its available-for-sale securities that were impacted by the Money Market Reform Act, which became effective October 14, 2016 for institutional money markets, to avoid any negative impact on the Company's institutional money market investments. The Company recognized nominal gross gains from the sale of these securities. During the three months ended March 31, 2016, the Company sold \$3.8 million of its available-for-sale securities and recognized gross losses aggregating \$18,000. Accordingly, the Company's Other income, net, in its condensed consolidated statement of operations for the nine months ended September 30, 2016 includes a loss in the aggregate of approximately \$18,000 related to the aforementioned sales. The Company did not sell any of its available-for-sale securities during the three or nine months ended September 25, 2015. Investments with continuous unrealized losses for one year or greater at September 30, 2016 were nominal. Since the Company currently does not intend to sell these securities and does not believe it will be required to sell any securities before they recover in value, it does not believe these declines are other-than-temporary.

On a quarterly basis, the Company reviews its marketable securities and investments to determine if there have been any events that could create a credit impairment. Based on its reviews, the Company does not believe that any impairment existed with its current holdings at September 30, 2016.

The amortized cost, gross unrealized gains and losses and fair value of the Company's marketable debt securities and investments at September 30, 2016 and December 31, 2015 were comprised of the following (in thousands):

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	September 30, 2016			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
<i>Cash equivalents</i>	\$ 12,389	\$ —	\$ —	\$ 12,389
<i>Marketable securities</i>				
Municipal obligations	\$ 2,627	\$ 3	\$ —	\$ 2,630
U.S. government agency notes	9,973	9	—	9,982
Corporate debt securities	37,221	12	(16)	37,217
	<u>\$ 49,821</u>	<u>\$ 24</u>	<u>\$ (16)</u>	<u>\$ 49,829</u>
<i>Investments</i>				
Municipal obligations	\$ 1,109	\$ 1	\$ —	\$ 1,110
U.S. government agency notes	21,470	17	(2)	21,485
Corporate debt securities	16,011	11	(14)	16,008
	<u>\$ 38,590</u>	<u>\$ 29</u>	<u>\$ (16)</u>	<u>\$ 38,603</u>
December 31, 2015				
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
<i>Cash equivalents</i>	\$ 7,122	\$ —	\$ —	\$ 7,122
<i>Marketable securities</i>				
Municipal obligations	\$ 3,910	\$ —	\$ (1)	\$ 3,909
U.S. government agency notes	3,450	—	(2)	3,448
Corporate debt securities	46,736	2	(56)	46,682
Commercial paper	3,994	—	—	3,994
Certificates of deposit	500	—	—	500
	<u>\$ 58,590</u>	<u>\$ 2</u>	<u>\$ (59)</u>	<u>\$ 58,533</u>
<i>Investments</i>				
Municipal obligations	\$ 2,165	\$ —	\$ (4)	\$ 2,161
U.S. government agency notes	1,999	—	(13)	1,986
Corporate debt securities	29,541	2	(85)	29,458
	<u>\$ 33,705</u>	<u>\$ 2</u>	<u>\$ (102)</u>	<u>\$ 33,605</u>

The Company's available-for-sale debt securities classified as Investments in the condensed consolidated balance sheets at September 30, 2016 and December 31, 2015 had maturity dates after one year but within approximately two years or less from the balance sheet date.

Fair Value Hierarchy

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.

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

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

The following table shows the fair value of the Company's financial assets at September 30, 2016 and December 31, 2015. These financial assets are comprised of the Company's available-for-sale debt securities and reported under the captions Cash and cash equivalents, Marketable securities and Investments in the condensed consolidated balance sheets (in thousands):

	Total carrying value at September 30, 2016	Fair value measurements at September 30, 2016 using:		
		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>Cash equivalents</i>	\$ 12,389	\$ 12,389	\$ —	\$ —
<i>Marketable securities</i>				
Municipal obligations	\$ 2,630	\$ —	\$ 2,630	\$ —
U.S. government agency notes	9,982	—	9,982	—
Corporate debt securities	37,217	—	37,217	—
	<u>\$ 49,829</u>	<u>\$ —</u>	<u>\$ 49,829</u>	<u>\$ —</u>
<i>Investments</i>				
Municipal obligations	\$ 1,110	\$ —	\$ 1,110	\$ —
U.S. government agency notes	21,485	—	21,485	—
Corporate debt securities	16,008	—	16,008	—
	<u>\$ 38,603</u>	<u>\$ —</u>	<u>\$ 38,603</u>	<u>\$ —</u>

	Total carrying value at December 31, 2015	Fair value measurements at December 31, 2015 using:		
		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>Cash equivalents</i>	\$ 7,122	\$ 7,122	\$ —	\$ —
<i>Marketable securities</i>				
Municipal obligations	\$ 3,909	\$ —	\$ 3,909	\$ —
U.S. government agency notes	3,448	—	3,448	—
Corporate debt securities	46,682	—	46,682	—
Commercial paper	3,994	—	3,994	—
Certificates of deposit	500	—	500	—
	<u>\$ 58,533</u>	<u>\$ —</u>	<u>\$ 58,533</u>	<u>\$ —</u>
<i>Investments</i>				
Municipal obligations	\$ 2,161	\$ —	\$ 2,161	\$ —
U.S. government agency notes	1,986	—	1,986	—
Corporate debt securities	29,458	—	29,458	—
	<u>\$ 33,605</u>	<u>\$ —</u>	<u>\$ 33,605</u>	<u>\$ —</u>

The Company's marketable securities and investments have been valued with the assistance of valuations provided by third-party pricing services, as derived from such services' pricing models. Inputs to the models may include, but are not

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limited to, reported trades, executable bid and asked prices, broker/dealer quotations, prices or yields of securities with similar characteristics, benchmark curves or information pertaining to the issuer, as well as industry and economic events. The pricing services may use a matrix approach, which considers information regarding securities with similar characteristics to determine the valuation for a security. The Company is ultimately responsible for the condensed consolidated financial statements and underlying estimates. Accordingly, the Company assesses the reasonableness of the valuations provided by the third-party pricing services by reviewing actual trade data, broker/dealer quotes and other similar data, which are obtained from quoted market prices or other sources.

(5) INVENTORY

Inventory at September 30, 2016 and December 31, 2015 consists of the following (in thousands):

	September 30, 2016	December 31, 2015
On-hand final assemblies and finished goods inventories	\$ 17,319	\$ 17,136
Deferred cost of goods sold	4,942	5,975
	22,261	23,111
Less current portion	(20,811)	(23,111)
Noncurrent portion (included in Other assets)	\$ 1,450	\$ —

(6) INTANGIBLE ASSETS AND GOODWILL

The Company's intangible assets at September 30, 2016 and December 31, 2015 consist of the following (dollars in thousands):

<u>September 30, 2016</u>	Weighted average amortization period (years)	Cost	Accumulated amortization	Net carrying value
Developed technology	6.92	\$ 47,080	\$ 14,952	\$ 32,128
Customer relationships	5.69	14,030	7,364	6,666
Internal use software	3.00	730	730	—
	6.59	\$ 61,840	\$ 23,046	\$ 38,794

<u>December 31, 2015</u>	Weighted average amortization period (years)	Cost	Accumulated amortization	Net carrying value
In-process research and development	*	\$ 1,600	\$ —	\$ 1,600
Developed technology	6.42	31,280	10,415	20,865
Customer relationships	5.57	10,030	6,408	3,622
Internal use software	3.00	730	730	—
	6.19	\$ 43,640	\$ 17,553	\$ 26,087

* An in-process research and development intangible asset has an indefinite life until the product is generally available, at which time such asset is reclassified to developed technology. As of September 30, 2016, all of the Company's in-process research and development intangible assets had been reclassified to developed technology and are being amortized over their respective estimated useful lives.

Amortization expense for intangible assets for the three and nine months ended September 30, 2016 and September 25, 2015 was as follows (in thousands):

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	<u>Three months ended</u>		<u>Nine months ended</u>		<u>Statement of operations classification</u>
	<u>September 30, 2016</u>	<u>September 25, 2015</u>	<u>September 30, 2016</u>	<u>September 25, 2015</u>	
Developed technology	\$ 1,455	\$ 1,282	\$ 4,537	\$ 3,505	Cost of revenue - product
Customer relationships	319	414	956	1,308	Sales and marketing
Internal use software	—	41	—	162	Cost of revenue - product
	<u>\$ 1,774</u>	<u>\$ 1,737</u>	<u>\$ 5,493</u>	<u>\$ 4,975</u>	

During the three months ended September 30, 2016, the Company recorded intangible assets aggregating \$18.2 million, comprised of \$14.2 million related to developed technology, with an estimated useful life of 8 years, and \$4.0 million related to customer relationships, with an estimated useful life of 6 years. The Company is amortizing these intangible assets in relation to the expected cash flows from the individual intangible assets over their respective useful lives. The Company did not record amortization expense for the Taqua intangible assets for the period from the Taqua Acquisition Date through September 30, 2016, as the amounts were immaterial to the Company's consolidated financial results.

The Company is recording amortization expense in connection with the in-process research and development intangible assets that arose from the acquisition of the SDN Business, of which \$1.6 million had been reclassified to developed technology in the three months ended March 31, 2016 and \$7.5 million had been reclassified to developed technology in the three months ended September 25, 2015, representing the cost basis of products that became generally available in the respective quarters. The Company has determined that the reclassified assets each have an estimated useful life of 7 years. The Company is amortizing the identifiable intangible assets in relation to the expected cash flows from the individual intangible assets over their respective useful lives.

Estimated future amortization expense for the Company's intangible assets at September 30, 2016 is as follows (in thousands):

Years ending December 31,

Remainder of 2016	\$ 2,524
2017	10,836
2018	7,747
2019	7,079
2020	4,507
Thereafter	6,101
	<u>\$ 38,794</u>

The changes in the carrying value of the Company's goodwill in the nine months ended September 30, 2016 were as follows (in thousands):

Balance at January 1, 2016	
Goodwill	\$ 43,416
Accumulated impairment losses	(3,106)
	40,310
Acquisition of Taqua	11,826
Balance at September 30, 2016	<u>\$ 52,136</u>
Balance at September 30, 2016	
Goodwill	\$ 55,242
Accumulated impairment losses	(3,106)
	<u>\$ 52,136</u>

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The changes in the carrying value of the Company's goodwill in the nine months ended September 25, 2015 were as follows (in thousands):

Balance at January 1, 2015	
Goodwill	\$ 42,369
Accumulated impairment losses	(3,106)
	39,263
Acquisition of SDN Business	1,047
Balance at September 25, 2015	\$ 40,310
Balance at September 25, 2015	
Goodwill	\$ 43,416
Accumulated impairment losses	(3,106)
	\$ 40,310

(7) ACCRUED EXPENSES

Accrued expenses at September 30, 2016 and December 31, 2015 consist of the following (in thousands):

	September 30, 2016	December 31, 2015
Employee compensation and related costs	\$ 12,577	\$ 22,180
Other	10,413	9,783
	\$ 22,990	\$ 31,963

(8) RESTRUCTURING ACCRUAL

2016 Restructuring Initiative

In July 2016, the Company announced a program to further accelerate its investment in new technologies as the communications industry migrates to a cloud-based architecture (the "2016 Restructuring Initiative"). The Company expects to record between \$3 million and \$4 million of restructuring expense through the third quarter of 2017 in connection with this action, resulting in expected annual savings of approximately \$6 million to \$8 million. The Company intends to utilize the entire savings to shift headcount toward new strategic initiatives, such as new products and an expanded go-to-market footprint in selected geographies and discrete vertical markets. In connection with this restructuring initiative, the Company recorded \$1.2 million in the three months ended September 30, 2016. A summary of the 2016 Restructuring Initiative accrual activity for the nine months ended September 30, 2016 is as follows:

	Balance at January 1, 2016	Initiatives charged to expense	Adjustments for changes in estimate	Cash payments	Balance at September 30, 2016
Severance	\$ —	\$ 1,236	\$ —	\$ (216)	\$ 1,020

The Company expects that the amounts accrued under the 2016 Restructuring Initiative will be paid by end of the fourth quarter of 2017.

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Taqua Restructuring Initiative

In connection with the acquisition of Taqua, the Company's management approved an immaterial restructuring plan in the third quarter of 2016 to eliminate certain redundant positions within the combined companies. On October 24, 2016, the Audit Committee of the Board of Directors of the Company approved a broader Taqua restructuring plan related to headcount and redundant facilities (both restructuring plans, the "Taqua Restructuring Initiative"). In connection with this initiative, the Company recorded \$0.4 million in the three months ended September 30, 2016. The Company anticipates it will record additional future expense in connection with this initiative for headcount and redundant facilities aggregating approximately \$1 million to \$2 million. A summary of the Taqua Restructuring Initiative accrual activity for the nine months ended September 30, 2016 is as follows:

	Balance at January 1, 2016	Initiatives charged to expense	Adjustments for changes in estimate	Cash payments	Balance at September 30, 2016
Severance	\$ —	\$ 384	\$ —	\$ —	\$ 384

The Company expects that the amounts accrued under the Taqua Restructuring Initiative will be paid by the end of the second quarter of 2017.

2015 Restructuring Initiative

To better align the Company's cost structure to its current revenue expectations, in April 2015, the Company announced a cost reduction review and restructuring initiative (the "2015 Restructuring Initiative"). A summary of the 2015 Restructuring Initiative accrual activity for the nine months ended September 30, 2016 is as follows (in thousands):

	Balance at January 1, 2016	Initiatives charged to expense	Adjustments for changes in estimate	Cash payments	Balance at September 30, 2016
Severance	\$ 749	\$ —	\$ —	\$ (649)	\$ 100

The Company expects that the remaining amounts accrued under the 2015 Restructuring Initiative will be paid by the end of 2016.

Balance Sheet Classification

At September 30, 2016, the Company's restructuring accruals aggregated \$1.5 million, of which approximately \$33,000 was included in Other long-term liabilities, with the remainder included in Accrued expenses in the condensed consolidated balance sheet. At December 31, 2015, all of the restructuring accrual was included in Accrued expenses, as there was no long-term portion.

(9) DEBT

The Company entered into a credit agreement by and among the Company, as Borrower, Bank of America, N.A. ("Bank of America"), as Administrative Agent, Swing Line Lender and L/C Issuer, and the other lenders from time to time party thereto on June 27, 2014 (the "Credit Agreement"), which agreement was amended by a First Amendment to Credit Agreement on June 26, 2015 (the "First Amendment") and further amended by a Second Amendment to Credit Agreement on June 13, 2016 (the "Second Amendment" and collectively with the Credit Agreement and the First Amendment, the "Amended Credit Agreement"). Certain terms of the Credit Agreement have been amended by the Second Amendment, including, among other things: (i) an increase of the commitments from \$15 million to \$20 million; (ii) an extension of the maturity date from June 30, 2016 to June 30, 2017; (iii) a reduction to the aggregate amount of cash and cash equivalents that the Loan Parties (as defined

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below) are required to hold at any time from \$85 million to \$50 million ; and (iv) a reduction of the commitment fee on the unused commitments available for borrowing from 0.15% to 0.1125% . The Amended Credit Agreement provides that the Company may select the interest rates under the credit facility from among the following options: (i) the Eurodollar Rate (which is defined as the rate per annum equal to the London Interbank Offered Rate plus 1.5% per annum) for a Eurodollar Rate Loan; and (ii) the highest of (a) the Federal Funds Rate plus 1/2 of 1% , (b) the rate of interest in effect on the borrowing date as publicly announced from time to time by Bank of America as its prime rate, and (c) the monthly Eurodollar Rate plus 1% .

The obligations of the Company under the Amended Credit Agreement are guaranteed by Sonus International, Inc., Sonus Federal, Inc. and Network Equipment Technologies, Inc. ("NET") (collectively with the Company, the "Loan Parties") pursuant to a Master Continuing Guaranty and are secured by the assets of the Loan Parties pursuant to a Security and Pledge Agreement.

The Amended Credit Agreement contains affirmative, negative and financial covenants customary for financings of this type. The negative covenants include limitations on liens, indebtedness, fundamental changes, dispositions, restricted payments, investments, transactions with affiliates, certain restrictive agreements and compliance with sanctions laws and regulations. The total revenues of the Loan Parties cannot be less than an aggregate of \$50 million as of the last day of the Loan Parties' fiscal quarter, computed on a fiscal quarterly basis. The credit facility will become due on June 30, 2017, subject to acceleration upon certain specified events of default, including, without limitation, payment defaults, defaults in the performance of affirmative and negative covenants, the inaccuracy of representations of warranties, bankruptcy and insolvency-related defaults, defaults relating to judgments, an ERISA Event (as defined in the Amended Credit Agreement), the failure to pay specified indebtedness and a change of control default.

The Company did not have any amounts outstanding under the Amended Credit Agreement at either September 30, 2016 or December 31, 2015 .

(10) COMMON STOCK REPURCHASES

On July 29, 2013, the Company announced that its Board of Directors had authorized a stock buyback program to repurchase up to \$100 million of the Company's common stock from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares repurchased will be determined by the Company's management based on its evaluation of market conditions and other factors. The Company may elect to implement a 10b5-1 repurchase program, which would permit shares to be repurchased when the Company might otherwise be precluded from doing so under insider trading laws. The Company has not implemented such a 10b5-1 repurchase program to date. The stock buyback program may be suspended or discontinued at any time. The stock buyback program is being funded using the Company's working capital. During the nine months ended September 30, 2016 , the Company spent \$7.1 million , including transaction fees, to repurchase and retire 0.9 million shares of its common stock under the stock buyback program. During the nine months ended September 25, 2015 , the Company spent \$6.1 million , including transaction fees, to repurchase and retire 0.4 million shares of its common stock under the stock buyback program. At September 30, 2016 , the Company had \$7.8 million remaining under the stock buyback program for future repurchases.

(11) STOCK-BASED COMPENSATION PLANS

Stock Incentive Plan

The Company's 2007 Stock Incentive Plan, as amended (the "2007 Plan"), provides for the award of options to purchase the Company's common stock ("stock options"), stock appreciation rights ("SARs"), restricted common stock awards ("RSAs"), restricted common stock units ("RSUs"), performance-based stock awards ("PSAs"), performance-based stock units ("PSUs") and other stock-based awards to employees, officers, directors (including those directors who are not employees or officers of the Company), consultants and advisors of the Company and its subsidiaries.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

At its 2016 annual meeting of stockholders held on June 9, 2016 (the "2016 Annual Meeting"), the Company's stockholders approved (i) changing the name of the 2007 Plan to the Amended and Restated Stock Incentive Plan (the "Stock Plan") and (ii) other amendments to the Stock Plan including, among other things, to:

- Increase the number of shares of the Company's common stock authorized for issuance under the Stock Plan by 800,000 shares;
- Extend the Stock Plan's termination date through the tenth anniversary of the 2016 Annual Meeting;
- Revise the rate at which RSAs, RSUs, PSAs and PSUs (collectively, "full value awards") are counted against the shares of common stock available for issuance under the Stock Plan from 1.61 shares for every one share subject to such award to 1.50 shares for every one share subject to such award. Shares of common stock subject to full value awards that were granted under any prior ratio that applied at the time such awards were granted will continue to return to the Stock Plan upon forfeiture of such awards at the respective previous ratio of 1.50 , 1.57 and 1.61 , as applicable;
- Increase the maximum number of shares of the Company's common stock with respect to which awards may be granted to any participant under the Stock Plan to 1,000,000 shares per calendar year;
- Increase the maximum number of shares of the Company's common stock with respect to which awards may be granted under the Stock Plan to any director who is not an employee of the Company at the time of grant to 100,000 shares per calendar year; and
- Prohibit stock options and SARs granted under the Stock Plan from (i) providing for the payment or accrual of dividend equivalents or (ii) containing any provision entitling the grantee to the automatic grant of additional stock options or SARs, as applicable, in connection with the exercise of the original stock option or SAR, as applicable.

In June 2016, the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") voted to change the standard vesting terms for awards of stock options, RSAs and RSUs granted after June 9, 2016 as follows:

- Stock options will generally vest over a period of three years , with one-third of the stock options vesting on the first anniversary of the grant date and the remaining two-thirds vesting in equal monthly increments thereafter through the third anniversary of the grant date.
- RSAs and RSUs (collectively, the "restricted stock grants") will generally vest over a period of three years , with one-third of the shares underlying the grant vesting on the first anniversary of the grant date and the remaining two-thirds vesting in equal increments semi-annually through the third anniversary of the grant date.

The Company neither adjusted nor intends to adjust the vesting schedules of stock options or restricted stock grants awarded prior to June 9, 2016 to reflect the new three-year vesting schedules.

Executive Equity Arrangements

On April 1, 2016, the Company granted an aggregate of 131,250 PSUs with both market and service conditions to six of its executives (the "2016 PSUs"). The terms of the 2016 PSUs are such that up to one-third of the shares subject to the 2016 PSUs will vest on each of the first, second and third anniversaries of the date of grant (collectively, the "2016 PSU Vesting Dates") to the extent of achievement of the Company's total shareholder return ("TSR") compared to the TSR of the companies included in the NASDAQ Telecommunications Index for the same fiscal year, measured by the Compensation Committee after each of the 2016, 2017 and 2018 fiscal years, respectively (as used in this paragraph, each, a "Performance Period"). The shares determined to be earned will vest on the anniversary of the grant date following each Performance Period. Shares subject to the 2016 PSUs that fail to be earned will be forfeited. The 2016 PSUs include a market condition that requires the use of a Monte Carlo simulation approach to model future stock price movements based upon the risk-free rate of return, the volatility of each entity, and the pair-wise covariance between each entity. These results were then used to calculate the grant date fair values of the 2016 PSUs. Because the 2016 PSUs have market conditions, the Company is required to record expense

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

for the 2016 PSUs through the final 2016 PSU Vesting Date of April 1, 2019, regardless of the number of shares that are ultimately earned. In June 2016, one executive separated from the Company and forfeited his unvested 2016 PSUs; these forfeited unvested 2016 PSUs are reported as such in the performance-based units table below.

On March 16, 2015, the Company granted an aggregate of 131,250 PSUs with both market and service conditions to eight of its executives (the "2015 PSUs"). In 2015, subsequent to the grant date, two executives separated from the Company and, in accordance with their respective employment agreements with the Company, the Company accelerated the vesting of certain unvested 2015 PSUs. The terms of the 2015 PSUs are such that up to one-third of the shares subject to the 2015 PSUs will vest on each of the first, second and third anniversaries of the date of grant (collectively, the "2015 PSU Vesting Dates") to the extent of achievement of the Company's TSR compared to the TSR of the companies included in the NASDAQ Telecommunications Index for the same Performance Period, measured by the Compensation Committee at the end of each of the 2015, 2016 and 2017 fiscal years, respectively (as used in this paragraph, each, a "Performance Period"). The shares determined to be earned will vest on the anniversary of the grant date following each Performance Period. Shares subject to the 2015 PSUs that fail to be earned will be forfeited. The 2015 PSUs include a market condition that required the use of a Monte Carlo simulation approach to calculate the grant date fair values of the 2015 PSUs. Because the 2015 PSUs have market conditions, the Company is required to record expense for the 2015 PSUs through the final 2015 PSU Vesting Date of March 16, 2018, regardless of the number of shares that are ultimately earned, if any. In February 2016, the Compensation Committee determined that the performance metrics for the 2015 PSUs were not achieved for the 2015 Performance Period. Accordingly, 37,081 shares in the aggregate, representing one-third of the 2015 PSUs held by the then-remaining six executives, were forfeited, and are reported as such in the performance-based units table below. In June 2016, one executive separated from the Company and forfeited his unvested 2015 PSUs; these forfeited unvested 2015 PSUs are reported as such in the performance-based units table below.

In connection with the October 2016 separation of one executive from the Company and the terms of his employment agreement, as amended, the vesting schedules of certain of his stock options, RSAs and PSUs were accelerated to October 3, 2016. Accordingly, the Company accelerated the expense recognition in connection with these accelerated grants, resulting in incremental stock-based compensation expense of \$1.9 million recorded in the three months ended September 30, 2016. The Company recorded all such incremental expense in the three months ended September 30, 2016, as any expense attributable to the period in the fourth quarter of 2016 was immaterial to the Company's consolidated financial results.

Stock Options

The activity related to the Company's outstanding stock options during the nine months ended September 30, 2016 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2016	6,352,208	\$ 15.99		
Granted	161,090	\$ 8.41		
Exercised	(19,578)	\$ 6.87		
Forfeited	(155,787)	\$ 14.80		
Expired	(569,905)	\$ 16.99		
Outstanding at September 30, 2016	<u>5,768,028</u>	\$ 15.74	5.51	\$ 294
Vested or expected to vest at September 30, 2016	5,666,592	\$ 15.78	5.46	\$ 282
Exercisable at September 30, 2016	4,619,681	\$ 15.82	5.01	\$ 238

The grant date fair values of options to purchase common stock granted in the three and nine months ended September 30, 2016 were estimated using the Black-Scholes valuation model with the following assumptions:

SONUS NETWORKS, INC.
Notes to Condensed Consolidated Financial Statements (Continued)
(unaudited)

	Three months ended September 30, 2016	Nine months ended September 30, 2016
Risk-free interest rate	1.13%	1.00% - 1.60%
Expected dividends	—	—
Weighted average volatility	51.6%	54.8%
Expected life (years)	5.0	5.0-10.0

Additional information regarding the Company's stock options for the three and nine months ended September 30, 2016 is as follows:

	Three months ended September 30, 2016	Nine months ended September 30, 2016
Weighted average grant date fair value of stock options granted	\$ 4.01	\$ 4.46
Total intrinsic value of stock options exercised (in thousands)	\$ 27	\$ 38
Cash received from the exercise of stock options (in thousands)	\$ 120	\$ 135

Restricted Stock Awards and Units

The activity related to the Company's RSAs for the nine months ended September 30, 2016 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested balance at January 1, 2016	1,512,783	\$ 13.48
Granted	1,535,902	\$ 7.79
Vested	(701,774)	\$ 12.82
Forfeited	(318,102)	\$ 10.25
Unvested balance at September 30, 2016	<u>2,028,809</u>	\$ 9.91

The activity related to the Company's RSUs for the nine months ended September 30, 2016 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested balance at January 1, 2016	95,361	\$ 16.05
Granted	53,400	\$ 7.58
Vested	(35,193)	\$ 16.05
Forfeited	(3,349)	\$ 16.05
Unvested balance at September 30, 2016	<u>110,219</u>	\$ 11.95

The total fair value of shares of restricted stock granted under RSAs and RSUs that vested during the nine months ended September 30, 2016 was \$9.6 million.

Performance-Based Stock Units

The activity related to the Company's PSUs for the nine months ended September 30, 2016 is as follows:

SONUS NETWORKS, INC.
Notes to Condensed Consolidated Financial Statements (Continued)
(unaudited)

	Shares	Weighted Average Grant Date Fair Value
Unvested balance at January 1, 2016	111,250	\$ 14.68
Granted	131,250	\$ 9.39
Vested	—	\$ —
Forfeited	(66,665)	\$ 12.77
Unvested balance at September 30, 2016	<u>175,835</u>	<u>\$ 10.58</u>

Employee Stock Purchase Plan

The Company's ESPP provides for six -month offering periods with the purchase price of the stock equal to 85% of the lesser of the market price on the first or last day of the offering period. The maximum number of shares of common stock an employee may purchase during each offering period is 500 , subject to certain adjustments pursuant to the ESPP.

Stock-Based Compensation

The condensed consolidated statements of operations include stock-based compensation for the three and nine months ended September 30, 2016 and September 25, 2015 as follows (in thousands):

	Three months ended		Nine months ended	
	September 30, 2016	September 25, 2015	September 30, 2016	September 25, 2015
Product cost of revenue	\$ 95	\$ 81	\$ 259	\$ 238
Service cost of revenue	331	378	985	1,155
Research and development	1,298	1,349	3,687	4,152
Sales and marketing	3,048	1,282	5,292	4,150
General and administrative	1,636	2,183	5,241	7,207
	<u>\$ 6,408</u>	<u>\$ 5,273</u>	<u>\$ 15,464</u>	<u>\$ 16,902</u>

There is no income tax benefit for employee stock-based compensation expense for the nine months ended September 30, 2016 or September 25, 2015 due to the valuation allowance recorded.

At September 30, 2016 , there was \$25.2 million , net of expected forfeitures, of unrecognized stock-based compensation expense related to unvested stock options, awards, units and ESPP shares. This expense is expected to be recognized over a weighted average period of approximately two years .

(12) MAJOR CUSTOMERS

The following customers contributed 10% or more of the Company's revenue in at least one of the three or nine month periods ended September 30, 2016 and September 25, 2015 :

	Three months ended		Nine months ended	
	September 30, 2016	September 25, 2015	September 30, 2016	September 25, 2015
AT&T Inc.	12%	15%	13%	14%
Inteliquent	*	14%	*	*
CenturyLink	*	11%	*	*

* Represents less than 10% of revenue

SONUS NETWORKS, INC.**Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)**

At September 30, 2016, two customers accounted for 10% or more of the Company's accounts receivable balance, representing approximately 28% of the Company's accounts receivable balance. At December 31, 2015, one customer accounted for 10% or more of the Company's accounts receivable balance, representing approximately 11% of the Company's accounts receivable balance. The Company performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable. The Company maintains an allowance for doubtful accounts and such losses have been within management's expectations.

(13) GEOGRAPHIC INFORMATION

The Company's classification of revenue by geographic area is determined by the location to which the product is shipped or where the services are performed. The following table summarizes revenue by geographic area as a percentage of total revenue:

	Three months ended		Nine months ended	
	September 30, 2016	September 25, 2015	September 30, 2016	September 25, 2015
United States	70%	77%	69%	71%
Europe, Middle East and Africa	14	11	13	12
Japan	7	5	10	10
Other Asia Pacific	5	4	5	4
Other	4	3	3	3
	100%	100%	100%	100%

International revenue, both as a percentage of total revenue and absolute dollars, may vary from one period to the next, and accordingly, historical data may not be indicative of future periods.

(14) INCOME TAXES

The Company's income tax provisions for the nine months ended September 30, 2016 and September 25, 2015 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 rates for the nine months ended September 30, 2016 and September 25, 2015 do not include any benefit for the Company's domestic losses, as the Company has concluded that a valuation allowance on any domestic benefit is required. Included in the Company's provision for the nine months ended September 30, 2016 is a discrete charge of \$0.7 million related to an uncertain tax position of the Company's subsidiary in France.

(15) COMMITMENTS AND CONTINGENCIES

On April 6, 2015, Ming Huang, a purported shareholder of the Company, filed a Class Action Complaint (Civil Action No. 3:15-02407), alleging violations of the federal securities laws (the "Complaint") in the United States District Court for the District of New Jersey (the "District of New Jersey"), against the Company and two of its officers, Raymond P. Dolan, the Company's President and Chief Executive Officer, and Mark T. Greenquist, the Company's former Chief Financial Officer (collectively, the "Defendants"). On September 21, 2015, in response to motions subsequently filed with the District of New Jersey by four other purported shareholders of the Company seeking status as lead plaintiff, the District of New Jersey appointed Richard Sousa as lead plaintiff (the "Plaintiff"). The Plaintiff claims to represent purchasers of the Company's common stock during the period from October 23, 2014 to March 24, 2015, and seeks unspecified damages. The principal allegation contained in the Complaint is that the Defendants made misleading forward-looking statements concerning the Company's fiscal first quarter of 2015 financial performance. On September 22, 2015, the Company filed a Motion to Transfer

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(the "Motion to Transfer") this case to the United States District Court for the District of Massachusetts. The Plaintiff filed his opposition to the Motion to Transfer on October 5, 2015, and the Company filed a reply to the Motion to Transfer on October 13, 2015. On March 21, 2016, the District of New Jersey granted the Company's Motion to Transfer. Thus, this case will now be litigated in the United States District Court for the District of Massachusetts (Civil Action No. 1:16-cv-10657-GAO). On May 4, 2016, the Plaintiff filed an amended complaint (the "Amended Complaint"), which is now the operative complaint in this litigation. On June 20, 2016, the Company and the other Defendants filed a Motion to Dismiss the Amended Complaint (the "Motion to Dismiss") and on July 25, 2016, the Plaintiff filed an opposition to the Motion to Dismiss. The Company filed its reply to the Plaintiff's opposition to the Motion to Dismiss on August 15, 2016. The Company believes that the Defendants have meritorious defenses to the allegations made in the Amended Complaint and does not expect the results of this suit to have a material effect on its business or consolidated financial statements. The Company is also fully cooperating with an SEC inquiry regarding the development and issuance of the Company's first quarter 2015 revenue and earnings guidance. At this time, it is not possible to predict the outcome of the SEC's inquiry, including whether or not any proceedings will be initiated or, if so, when or how the matter will be resolved and therefore an estimate of the possible range of loss, if any, cannot be made.

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 consolidated financial statements.

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

The following discussion of the financial condition and results of operations of Sonus Networks, Inc. should be read in conjunction with the condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the audited financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2015, which was filed with the U.S. Securities and Exchange Commission on February 23, 2016.

Overview

We are a leading provider of networked solutions for communications service providers (e.g., telecommunications, wireless and cable service providers) and enterprises to help them advance, protect and unify their communications and improve collaboration. We help many of the world's leading communications service providers and enterprises embrace the next generation of Session Initiation Protocol ("SIP") and 4G/LTE (Long Term Evolution)-based solutions, including Voice over IP ("VoIP") video and Unified Communications ("UC") through secure, reliable and scalable Internet Protocol ("IP") networks. Our products include session border controllers ("SBCs"), diameter signaling controllers ("DSCs"), policy/routing servers and network intelligence applications ("VellOS") and are designed to provide network-wide security and other cloud network exchange services, media and signaling gateways and network analytics tools. Our products are supported by a global services team with experience in design, deployment and maintenance of some of the world's largest IP networks.

Our solutions enable our customers to seamlessly link and leverage multivendor, multiprotocol communications systems and applications across their networks, around the world and in a rapidly changing ecosystem of IP-enabled devices, such as smartphones and tablets. Our solutions help our customers realize the intended value and benefits of UC platforms by allowing disparate communications environments, commonplace in most enterprises today, to work seamlessly together. Likewise, our solutions facilitate the evolution to cloud-based delivery of UC solutions.

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

new revenue.

We have traditionally sold our products principally through a global direct sales force, with additional sales support from regional channel partners throughout the world. Our channel partner program, the Sonus Partner Assure Program, addresses service provider and enterprise market opportunities. We also have a two-tier distribution channel model.

For the year ended December 31, 2015, we reported our first, second and third quarters on a 4-4-5 basis, with the quarter ending on the Friday closest to the last day of each third month. Accordingly, our first quarter ended on March 27, 2015, our second quarter ended on June 26, 2015 and our third quarter ended on September 25, 2015. Effective January 1, 2016, we are reporting our first, second and third quarters on a month-end basis, such that our first quarter ended on March 31, 2016, our second quarter ended on June 30, 2016 and our third quarter ended on September 30, 2016. Our fiscal year will continue to end on December 31.

On September 26, 2016 (the "Taqua Acquisition Date"), we acquired Taqua, LLC ("Taqua"), a leading supplier of IP communications systems, applications and services to mobile and fixed operators. Taqua enables the transformation of software-based service provider networks to deliver next-generation voice, video and messaging services, including VoIP, Voice over Wi-Fi ("VoWiFi") and Voice over Long-Term Evolution ("VoLTE"). We believe that the acquisition of Taqua will, among other things, accelerate our mobile strategy by adding a Virtualized Mobile Core ("VMC") Platform and an IP Multimedia Subsystem ("IMS") Service Core and expand our fixed portfolio by adding a Class 5 Softswitch (the T7000) for Network Transformation projects and a Multimedia Controller used in IP Peering applications (the T7100), both of which are complementary to our current product offerings. In consideration for the acquisition of Taqua, we paid \$19.9 million in cash to the sellers on the Taqua Acquisition Date, net of cash acquired. We also entered into an Earn-Out Agreement, dated as of September 26, 2016, with Taqua Holdings, LLC and Jeffrey L. Brawner, the seller representative in the transaction, under which there is the potential for additional cash payments to the sellers if certain annual revenue thresholds are exceeded as measured annually through 2020. Based on historical sales and probability weighted cash flows related to forecasted sales, we recorded \$10.0 million of contingent consideration as of the Taqua Acquisition Date. The financial results of Taqua are included in our condensed consolidated financial statements starting on the Taqua Acquisition Date.

On January 2, 2015 (the "Treq Asset Acquisition Date"), we acquired from Treq Labs, Inc. ("Treq") certain assets related to its business of designing, developing, marketing, selling, servicing and maintaining software-defined networking ("SDN") technology, SDN controller software and SDN management software (the "SDN Business") for \$10.1 million in cash on the Treq Asset Acquisition Date, and an additional consideration payment of \$750,000 paid on each of July 2, 2015 and January 4, 2016. We also entered into an Earn-Out Agreement under which we agreed to issue to the sellers up to an aggregate of 1.3 million shares of common stock over a three-year period subsequent to the Treq Asset Acquisition Date if aggregate revenue thresholds of at least \$60 million are achieved by the SDN Business during that period, and up to an aggregate of an additional 2.2 million shares (3.5 million shares in total) if aggregate revenue thresholds of at least \$150 million are achieved by the SDN Business during that period. If the initial revenue thresholds are not met, no shares will be issued. Based on historical and forecasted sales, no incremental contingent consideration was recorded initially as of the Treq Asset Acquisition Date or through September 30, 2016. The SDN Business provides solutions that optimize networks for voice, video and UC for both enterprise and service provider customers. The financial results of the SDN Business are included in our condensed consolidated financial statements starting on the Treq Asset Acquisition Date.

On July 27, 2016, we announced that Anthony Scarfo ("Mr. Scarfo") was stepping down as Executive Vice President, Services, Product Management and Corporate Development, effective immediately. Mr. Scarfo remained with the Company in an advisory role to assist in the transition of his duties until October 3, 2016. In connection with Mr. Scarfo's separation from the Company, and in accordance with his employment agreement, as amended, we accelerated the vesting of certain of his unvested stock options, restricted stock awards ("RSAs") and performance-based stock units ("PSUs"). This acceleration resulted in incremental stock-based compensation expense aggregating \$1.9 million in the three and nine months ended September 30, 2016, which is included as a component of Sales and marketing expense in our condensed consolidated statements of operations.

On June 9, 2016, Mark T. Greenquist ("Mr. Greenquist") tendered his resignation as our Chief Financial Officer, principal financial officer and principal accounting officer, effective June 15, 2016. Effective June 15, 2016, Susan M. Villare, our Vice President of Financial Planning and Analysis, has been fulfilling the roles of our Chief Financial Officer, principal financial officer and principal accounting officer on an interim basis, until a successor for Mr. Greenquist is identified.

In connection with the acquisition of Taqua, our management approved an immaterial restructuring plan in the third quarter of 2016 to eliminate certain redundant positions within the combined companies. On October 24, 2016, the Audit Committee of our Board of Directors approved a broader Taqua restructuring plan related to headcount and redundant facilities

(both restructuring plans, the "Taqua Restructuring Initiative"). In addition to the \$0.4 million of expense recorded in the three months ended September 30, 2016, we expect to record future expense through the end of the second quarter of 2017 of approximately \$1 million to \$2 million in the aggregate in connection with this initiative, of which approximately \$1 million is related to headcount and \$1 million is related to facilities, all of which will require cash payments.

On July 27, 2016, we announced a restructuring program to further accelerate our investment in new technologies as the communications industry migrates to a cloud-based architecture (the "2016 Restructuring Initiative"). The Audit Committee approved such restructuring program on July 25, 2016. We expect to record between \$3 million and \$4 million of restructuring expense over the next twelve months in connection with this action, resulting in expected annual savings of approximately \$6 million to \$8 million. We intend to utilize the entire savings to shift headcount towards new strategic initiatives (e.g., new products, expanded go-to-market footprint in selected geographies and discrete vertical markets).

Our strategy is designed to capitalize on our technology and market lead and to build a premier franchise in multimedia infrastructure solutions. We are currently focusing our major efforts on the following aspects of our business, which enable next generation communications, including SIP- and 4G/LTE-based networks:

- expanding our communications network solutions to address emerging UC-, IP- and cloud-based enterprise and service providers;
- embracing the principles outlined by 3GPP, 4GPP2 and LTE architectures and delivering the industry's most advanced IMS (IP Multimedia Subsystem)-ready SBC and DSC product suites;
- leveraging our TDM (time division multiplexing)-to-IP gateway technology leadership with service providers to accelerate adoption of SIP-enabled UC services;
- expanding and broadening our customer base by targeting the enterprise market for SIP trunking and access solutions;
- providing an environment for our customers to enable real-time communication to embed into their presence on the worldwide web;
- expanding our global sales distribution, marketing and support capabilities;
- actively contributing to the SIP standards definition and adoption process;
- pursuing strategic transactions and alliances;
- successfully implementing our cost reduction initiatives; and
- delivering sustainable profitability by continuing to improve our overall performance.

We reported losses from operations of \$4.3 million for the three months ended September 30, 2016 and \$1.4 million for the three months ended September 25, 2015 . We reported losses from operations of \$10.9 million for the nine months ended September 30, 2016 and \$35.3 million for the nine months ended September 25, 2015 .

We reported net losses of \$3.7 million for the three months ended September 30, 2016 and \$1.9 million for the three months ended September 25, 2015 . We reported net losses of \$11.3 million for the nine months ended September 30, 2016 and \$36.6 million for the nine months ended September 25, 2015 .

Our revenue was \$65.0 million in the three months ended September 30, 2016 and \$67.9 million in the three months ended September 25, 2015 . Our revenue was \$185.0 million in the nine months ended September 30, 2016 and \$172.7 million in the nine months ended September 25, 2015 .

Our gross profit was \$43.6 million in the three months ended September 30, 2016 and \$45.7 million in the three months ended September 25, 2015 . Our gross profit was \$122.2 million in the nine months ended September 30, 2016 and \$109.4 million in the nine months ended September 25, 2015 . Our gross profit as a percentage of revenue ("total gross margin") was 67.0% in the three months ended September 30, 2016 and 67.4% in the three months ended September 25, 2015 . Our total gross margin was 66.1% in the nine months ended September 30, 2016 and 63.3% in the nine months ended September 25, 2015 .

Our operating expenses were \$47.9 million in the three months ended September 30, 2016 , compared to \$47.1 million in the three months ended September 25, 2015 . Our operating expenses were \$133.1 million in the nine months ended September 30, 2016 and \$144.6 million in the nine months ended September 25, 2015 .

We recorded stock-based compensation expense of \$6.4 million in the three months ended September 30, 2016 , compared to \$5.3 million in the three months ended September 25, 2015 , and \$15.5 million in the nine months ended September 30, 2016 , compared to \$16.9 million in the nine months ended September 25, 2015 . 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 Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") for a discussion of these changes in our revenue and expenses.

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. If actual results differ significantly from management's estimates and projections, there could be a material effect on our condensed consolidated financial statements. The significant accounting policies that we believe are the most critical include the following:

- Revenue recognition;
- Valuation of inventory;
- Loss contingencies and reserves;
- Stock-based compensation;
- Business combinations;
- Goodwill and intangible assets; and
- Accounting for income taxes.

For a further discussion of our critical accounting policies and estimates, please refer to our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 . There were no significant changes to our critical accounting policies from December 31, 2015 through September 30, 2016 .

Results of Operations

Three and nine months ended September 30, 2016 and September 25, 2015

Revenue. Revenue for the three and nine months ended September 30, 2016 and September 25, 2015 was as follows (in thousands, except percentages):

	Three months ended		Increase (decrease) from prior year	
	September 30, 2016	September 25, 2015	\$	%
Product	\$ 38,601	\$ 42,230	\$ (3,629)	(8.6)%
Service	26,410	25,632	778	3.0 %
Total revenue	\$ 65,011	\$ 67,862	\$ (2,851)	(4.2)%

	Nine months ended		Increase (decrease) from prior year	
	September 30, 2016	September 25, 2015	\$	%
Product	\$ 108,719	\$ 94,137	\$ 14,582	15.5 %
Service	76,300	78,571	(2,271)	(2.9)%
Total revenue	\$ 185,019	\$ 172,708	\$ 12,311	7.1 %

Product revenue is comprised of sales of our communication infrastructure products. The decrease in product revenue in the three months ended September 30, 2016 compared to the three months ended September 25, 2015 was primarily the result of a decrease in sales of our GSX-related products, partially offset by an increase in sales of our signaling products. Sales of our SBC products were essentially flat compared to the three months ended September 25, 2015.

The increase in product revenue in the nine months ended September 30, 2016 compared to the nine months ended September 25, 2015 was primarily the result of growth in the sales of our SBC products, in particular, our SBC 7000 and SBC

5000 products. Sales of our SBC 7000 and SBC 5000 products increased approximately 28% in the aggregate in the nine months ended September 30, 2016 compared to the nine months ended September 25, 2015.

In the three months ended September 30, 2016, approximately 32% of our total product revenue was from indirect sales through our channel partner program, compared to approximately 22% in the three months ended September 25, 2015. Approximately 26% of our total product revenue was from indirect sales through our channel partner program in the nine months ended September 30, 2016, compared to approximately 24% in the nine months ended September 25, 2015.

In the three months ended September 30, 2016, our product revenue from sales to enterprise customers was approximately 21% of our total product revenue, compared to approximately 20% in the three months ended September 25, 2015. Our product revenue from sales to enterprise customers was approximately 20% of our total product revenue in the nine months ended September 30, 2016, compared to approximately 19% in the nine months ended September 25, 2015. These sales were made both through our direct sales team and indirect sales channel partners.

We expect that our product revenue in 2016 will increase from 2015 levels, primarily due to our expanding product portfolio and continued focus on additional new product offerings to address the emerging UC and IP-based markets, such as SBC, in both the enterprise and service provider markets.

Service revenue is primarily comprised of hardware and software maintenance and support (“maintenance revenue”) and network design, installation and other professional services (“professional services revenue”).

Service revenue for the three and nine months ended September 30, 2016 and September 25, 2015 was comprised of the following (in thousands, except percentages):

	Three months ended		Increase from prior year	
	September 30, 2016	September 25, 2015	\$	%
Maintenance	\$ 22,263	\$ 22,024	\$ 239	1.1%
Professional services	4,147	3,608	539	14.9%
	<u>\$ 26,410</u>	<u>\$ 25,632</u>	<u>\$ 778</u>	<u>3.0%</u>

	Nine months ended		Decrease from prior year	
	September 30, 2016	September 25, 2015	\$	%
Maintenance	\$ 64,290	\$ 65,618	\$ (1,328)	(2.0)%
Professional services	12,010	12,953	(943)	(7.3)%
	<u>\$ 76,300</u>	<u>\$ 78,571</u>	<u>\$ (2,271)</u>	<u>(2.9)%</u>

Our maintenance revenue increased slightly in the three months ended September 30, 2016 compared to the three months ended September 25, 2015, primarily due to customer mix, including customer renewals, and the timing of product shipments with related maintenance revenue. Our maintenance revenue decreased in the nine months ended September 30, 2016 compared to the nine months ended September 25, 2015, primarily due to customer mix, including customer renewals, and the timing of product shipments with related maintenance.

The increase in our professional services revenue in the three months ended September 30, 2016 compared to the three months ended September 25, 2015 was primarily due to higher revenue from projects completed in the current year period compared to the same prior year period.

The decrease in our professional services revenue in the nine months ended September 30, 2016 compared to the nine months ended September 25, 2015 primarily reflects lower project-related revenue in the current year period compared to the same prior year period.

The timing of the completion of projects for revenue recognition, customer payments and maintenance contracts may cause our service revenue to fluctuate from one period to the next. We expect that our service revenue in fiscal 2016 will decrease slightly from fiscal 2015 levels as a result of customer merger activities and lower project-related service work.

The following customers contributed 10% or more of our revenue in at least one of the three or nine month periods ended

September 30, 2016 and September 25, 2015 :

Customer	Three months ended		Nine months ended	
	September 30, 2016	September 25, 2015	September 30, 2016	September 25, 2015
AT&T Inc.	12%	15%	13%	14%
Inteliquent	*	14%	*	*
CenturyLink	*	11%	*	*

* Represents less than 10% of revenue

International revenue was approximately 30% of revenue in the three months ended September 30, 2016 and approximately 23% of revenue in the three months ended September 25, 2015 . International revenue was approximately 31% of revenue in the nine months ended September 30, 2016 and approximately 29% in the nine months ended September 25, 2015 . Due to the timing of project completions, we expect that the domestic and international components as a percentage of our revenue will fluctuate from quarter to quarter and year to year.

Our deferred product revenue was \$8.8 million at September 30, 2016 and \$12.5 million at December 31, 2015 . Our deferred service revenue was \$37.6 million at September 30, 2016 and \$33.6 million at December 31, 2015 . Our deferred revenue balance may fluctuate as a result of the timing of revenue recognition, customer payments, maintenance contract renewals, contractual billing rights and maintenance revenue deferrals included in multiple element arrangements.

Cost of Revenue/Gross Margin. Our cost of revenue consists primarily of amounts paid to third-party manufacturers for purchased materials and services, royalties, manufacturing and professional services personnel and related costs, and provision for inventory obsolescence. Our cost of revenue and gross margins for the three and nine months ended September 30, 2016 and September 25, 2015 were as follows (in thousands, except percentages):

	Three months ended		Increase (decrease) from prior year	
	September 30, 2016	September 25, 2015	\$	%
Cost of revenue				
Product	\$ 12,285	\$ 13,158	\$ (873)	(6.6)%
Service	9,140	8,992	148	1.6 %
Total cost of revenue	\$ 21,425	\$ 22,150	\$ (725)	(3.3)%
Gross margin				
Product	68.2%	68.8%		
Service	65.4%	64.9%		
Total gross margin	67.0%	67.4%		

	Nine months ended		Increase (decrease) from prior year	
	September 30, 2016	September 25, 2015	\$	%
Cost of revenue				
Product	\$ 35,230	\$ 36,075	\$ (845)	(2.3)%
Service	27,572	27,277	295	1.1 %
Total cost of revenue	\$ 62,802	\$ 63,352	\$ (550)	(0.9)%
Gross margin				
Product	67.6%	61.7%		
Service	63.9%	65.3%		
Total gross margin	66.1%	63.3%		

The decrease in product gross margin in the three months ended September 30, 2016 compared to the three months ended September 25, 2015 was primarily due to lower product revenue against certain fixed manufacturing costs. The increase in product gross margin in the nine months ended September 30, 2016 compared to the nine months ended September 25, 2015 was primarily due to higher product revenue against certain fixed manufacturing costs, coupled with lower variable costs in connection with our inventory valuation, which increased our product gross margin in the aggregate by approximately five percentage points. Our product and customer mix, particularly sales of our SBC 7000 and SBC 5000 products, increased our

product gross margin by approximately one percentage point in the nine months ended September 30, 2016, compared to the nine months ended September 25, 2015.

The increase in service gross margin in the three months ended September 30, 2016 compared to the three months ended September 25, 2015 was primarily due to higher revenue against relatively fixed costs, which increased our service gross margin by approximately one-half of one percentage point. The decrease in service gross margin in the nine months ended September 30, 2016 compared to the nine months ended September 25, 2015 was primarily due to lower revenue against relatively fixed costs.

We believe that our total gross margin will continue to be greater than 60% in the foreseeable future.

Research and Development Expenses. Research and development expenses consist primarily of salaries and related personnel expenses and prototype costs related to the design, development, testing and enhancement of our products. Research and development expenses for the three and nine months ended September 30, 2016 and September 25, 2015 were as follows (in thousands, except percentages):

	September 30, 2016	September 25, 2015	Decrease from prior year	
			\$	%
Three months ended	\$ 18,230	\$ 19,335	\$ (1,105)	(5.7)%
Nine months ended	\$ 53,005	\$ 58,642	\$ (5,637)	(9.6)%

The decrease in research and development expenses in the three months ended September 30, 2016 compared to the three months ended September 25, 2015 is attributable to \$0.5 million of lower depreciation expense, \$0.3 million of lower product development (third-party development, prototype and equipment) costs, \$0.2 million of lower facilities expense and \$0.1 million of net reductions in other research and development expenses. Employee-related expenses were virtually flat in the three months ended September 30, 2016 compared to the three months ended September 25, 2015.

The decrease in research and development expenses in the nine months ended September 30, 2016 compared to the nine months ended September 25, 2015 is attributable to \$2.5 million of lower depreciation expense, \$1.5 million of lower product development costs, \$1.1 million of lower facilities costs, \$0.3 million of lower employee-related expenses and \$0.2 million of net reductions in other research and development expenses. The decrease in employee-related expenses is attributable to \$1.7 million of lower salary and related expenses and \$0.5 million of lower stock-based compensation expense, partially offset by \$1.9 million of higher expense related to our Company-wide cash bonus program. Our lower salary and related expenses are primarily due to reduced headcount in connection with our 2015 restructuring initiative.

Some aspects of our research and development efforts require significant short-term expenditures, the timing of which may cause significant variability in our expenses. Rapid technological innovation is critical to our long-term success and we believe that we are tailoring our investments to meet the requirements of our customers and market. We anticipate that our research and development expenses for fiscal 2016 will decrease from fiscal 2015 levels due to our cost reduction initiatives, partially offset by our continued focus on new product development.

Sales and Marketing Expenses. Sales and marketing expenses consist primarily of salaries and related personnel costs, commissions, travel and entertainment expenses, promotions, customer trial and evaluations inventory and other marketing and sales support expenses. Sales and marketing expenses for the three and nine months ended September 30, 2016 and September 25, 2015 were as follows (in thousands, except percentages):

	September 30, 2016	September 25, 2015	Increase (decrease) from prior year	
			\$	%
Three months ended	\$ 18,103	\$ 16,507	\$ 1,596	9.7%
Nine months ended	\$ 50,890	\$ 53,812	\$ (2,922)	(5.4)%

The increase in sales and marketing expenses in the three months ended September 30, 2016 compared to the three months ended September 25, 2015 is attributable to \$1.2 million of higher employee-related expenses, \$0.6 million of higher marketing and trade show expenses and \$0.3 million of higher expense related to evaluation equipment at customer sites.

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These increases were partially offset by \$0.2 million of lower consulting expense and \$0.3 million of net decreases in other sales and marketing expenses. Employee-related expenses for the three months ended September 30, 2016 include \$1.9 million of incremental stock-based compensation expense related to the acceleration of the vesting of certain equity awards in connection with Mr. Scarfo's separation from the Company effective October 3, 2016. The increase in employee-related expense is comprised of \$1.8 million of higher stock-based compensation expense, including the aforementioned incremental expense for Mr. Scarfo's equity grants, partially offset by \$0.5 million of lower expense related to our Company-wide cash bonus program and \$0.1 million of lower travel, training and other employee expenses. Our salary and commissions and related expenses were essentially flat compared to the three months ended September 25, 2015.

The decrease in sales and marketing expenses in the nine months ended September 30, 2016 compared to the nine months ended September 25, 2015 is attributable to \$1.8 million of lower employee-related expenses, \$0.8 million of lower consulting expense, \$0.4 million of lower expense related to the amortization of acquired intangible assets, \$0.4 million of lower facilities expense and \$0.2 million of lower expense related to evaluation equipment at customer sites. These decreases were partially offset by \$0.1 million of higher depreciation expense and \$0.6 million of net increases in other sales and marketing expenses. The decrease in employee-related expenses is attributable to \$2.0 million of lower salary and commissions and related expenses and \$1.7 million of lower employee travel, training and related expenses. These increases were partially offset by \$1.1 million of higher stock-based compensation expense, including the \$1.9 million of incremental expense for Mr. Scarfo's equity grants described above, and \$0.8 million of higher expense related to our Company-wide cash bonus program. Our lower salary and related expenses are primarily due to reduced headcount in connection with our 2015 restructuring initiative, partially offset by higher commissions expense.

We believe that our sales and marketing expenses will decrease in fiscal 2016 from fiscal 2015 levels, primarily attributable to our cost reduction initiatives, partially offset by higher commissions expense driven by our anticipated higher revenue.

General and Administrative Expenses. General and administrative expenses consist primarily of salaries and related personnel costs for executive and administrative personnel, recruiting expenses and audit and professional fees. General and administrative expenses for the three and nine months ended September 30, 2016 and September 25, 2015 were as follows (in thousands, except percentages):

	September 30, 2016	September 25, 2015	Decrease from prior year	
			\$	%
Three months ended	\$ 8,998	\$ 11,074	\$ (2,076)	(18.7)%
Nine months ended	\$ 26,656	\$ 30,742	\$ (4,086)	(13.3)%

The decrease in general and administrative expenses in the three months ended September 30, 2016 compared to the three months ended September 25, 2015 is attributable to \$1.2 million of lower employee-related expenses and \$0.9 million of lower professional fees. The decrease in employee-related expenses resulted from \$0.6 million of lower expense related to our Company-wide cash bonus program, \$0.5 million of lower stock-based compensation expense and \$0.1 million of lower salary and related expenses.

The decrease in general and administrative expenses in the nine months ended September 30, 2016 compared to the nine months ended September 25, 2015 is attributable to \$2.5 million of lower employee-related expenses, \$1.1 million of lower professional fees, \$0.6 million of lower depreciation expense, \$0.3 million of lower expense related to foreign currency translation and \$0.3 million of lower facilities costs. These decreases were partially offset by \$0.5 million of higher expense related to patent litigation settlement costs and \$0.2 million of net increases in other general and administrative expenses. The decrease in employee-related expenses resulted from \$2.0 million of lower stock-based compensation expense and \$0.9 million of lower salary and related expenses, partially offset by \$0.4 million of higher expense related to our Company-wide cash bonus program. Our lower salary and related expenses are primarily due to reduced headcount in connection with our 2015 restructuring initiative.

We believe that our general and administrative expenses will decrease in fiscal 2016 compared to fiscal 2015 levels, primarily due to our cost reduction initiatives.

Acquisition-Related Expenses. We recorded acquisition-related expenses of \$1.0 million in both the three and nine months ended September 30, 2016 for professional fees, primarily legal fees, in connection with the acquisition of Taqua. We recorded acquisition-related expenses of \$0.1 million in the nine months ended September 25, 2015 for professional fees,

primarily legal fees, in connection with the acquisition of the SDN Business. We did not record any acquisition-related expenses in the three months ended September 25, 2015.

Restructuring Expense. We recorded restructuring expense aggregating \$1.6 million in both the three and nine months ended September 30, 2016, comprised of \$1.2 million related to our 2016 Restructuring Initiative and \$0.4 million related to our Taqua Restructuring Initiative for severance and related costs. We expect to record additional restructuring expense, including expense related to the restructuring of certain redundant facilities as well as headcount-related actions, aggregating approximately \$3 million to \$5 million in connection with these initiatives.

We recorded restructuring expense of \$0.2 million in the three months ended September 25, 2015, comprised of \$0.1 million of expense for severance and related costs in connection with our 2015 restructuring initiative and \$0.1 million of incremental expense in connection with our previous restructuring initiative related to vacating our Rochester, New York facility. Our restructuring expense of \$1.3 million for the nine months ended September 25, 2015 was comprised of \$3.0 million of expense for severance and related costs in connection with our 2015 restructuring initiative, and the aforementioned \$0.1 million of incremental expense in connection with our Rochester, New York facility, partially offset by reversals of \$1.4 million in connection with our Fremont, California facility in the three months ended June 26, 2015 and \$0.3 million in the three months ended March 27, 2015 in connection with our Dulles, Virginia facility, representing settlements with the respective landlords to vacate the facilities for amounts that were lower than had previously been accrued, and approximately \$67,000 in connection with changes in the amounts of severance ultimately paid to certain individuals.

We currently expect that the remaining restructuring accruals, all of which represent severance and related costs, will be paid by the end of the third quarter of 2017.

Interest Income (Expense), Net. Interest income and interest expense for the three and nine months ended September 30, 2016 and September 25, 2015 were as follows (in thousands, except percentages):

	Three months ended		Increase (decrease) from prior year	
	September 30, 2016	September 25, 2015	\$	%
Interest expense	\$ (8)	\$ (15)	\$ (7)	(46.7)%
Interest income	217	97	120	123.7 %
Interest income, net	\$ 209	\$ 82	\$ 127	154.9 %

	Nine months ended		Increase (decrease) from prior year	
	September 30, 2016	September 25, 2015	\$	%
Interest expense	\$ (27)	\$ (181)	\$ (154)	(85.1)%
Interest income	617	271	346	127.7 %
Interest income, net	\$ 590	\$ 90	\$ 500	555.6 %

Interest expense primarily relates to the amortization of debt issuance costs in connection with our revolving credit facility. Interest income consists of interest earned on our cash equivalents, marketable securities and long-term investments.

Income Taxes. We recorded provisions for income taxes of \$1.9 million in the nine months ended September 30, 2016 and \$1.6 million in the nine months ended September 25, 2015. 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 amounts recorded do not include any benefit for our domestic losses, as we have concluded that a valuation allowance on any domestic benefit is required. Included in our provision for the nine months ended September 30, 2016 is a discrete charge of \$0.7 million related to an uncertain tax position of our subsidiary in France.

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

	Nine months ended		Change
	September 30, 2016	September 25, 2015	
Net loss	\$ (11,301)	\$ (36,598)	\$ 25,297
Adjustments to reconcile net loss to cash flows provided by operating activities	26,863	32,149	(5,286)
Changes in operating assets and liabilities	(5,514)	6,146	(11,660)
Net cash provided by operating activities	\$ 10,048	\$ 1,697	\$ 8,351
Net cash (used in) provided by investing activities	\$ (20,647)	\$ 6,437	\$ (27,084)
Net cash used in financing activities	\$ (7,206)	\$ (4,324)	\$ (2,882)

Our cash, cash equivalents, and short- and long-term investments totaled \$121.0 million at September 30, 2016 and \$142.2 million at December 31, 2015 . We had cash and short-term investments held by our foreign subsidiaries aggregating approximately \$5 million at September 30, 2016 and approximately \$4 million at December 31, 2015 . We do not intend to repatriate these funds and, as such, they are not available to fund our domestic operations. If we were to repatriate the funds, they would likely be treated as income for U.S. tax purposes, fully offset by our net operating losses. We do not believe this has a material impact on our liquidity.

We entered into a credit agreement by and among the Company, as Borrower, Bank of America, N.A. ("Bank of America"), as Administrative Agent, Swing Line Lender and L/C Issuer, and the other lenders from time to time party thereto on June 27, 2014 (the "Credit Agreement"), which agreement was amended by a First Amendment to Credit Agreement on June 26, 2015 (the "First Amendment") and further amended by a Second Amendment to Credit Agreement on June 13, 2016 (the "Second Amendment" and collectively with the Credit Agreement and the First Amendment, the "Amended Credit Agreement"). Certain terms of the Credit Agreement have been amended by the Second Amendment, including, among other things: (i) an increase of the commitments from \$15 million to \$20 million ; (ii) an extension of the maturity date from June 30, 2016 to June 30, 2017; (iii) a reduction to the aggregate amount of cash and cash equivalents that the Loan Parties (as defined below) are required to hold at any time from \$85 million to \$50 million; and (iv) a reduction of the commitment fee on the unused commitments available for borrowing from 0.15% to 0.1125%. The Amended Credit Agreement provides that we may select the interest rates under the credit facility from among the following options: (i) the Eurodollar Rate (which is defined as the rate per annum equal to the London Interbank Offered Rate plus 1.5% per annum) for a Eurodollar Rate Loan; and (ii) the highest of (a) the Federal Funds Rate plus 1/2 of 1%, (b) the rate of interest in effect on the borrowing date as publicly announced from time to time by Bank of America as its prime rate, and (c) the monthly Eurodollar Rate plus 1%. Our obligations under the Amended Credit Agreement are guaranteed by Sonus International, Inc., Sonus Federal, Inc. and Network Equipment Technologies, Inc. ("NET") (collectively with the Company, the "Loan Parties") pursuant to a Master Continuing Guaranty and are secured by the assets of the Loan Parties pursuant to a Security and Pledge Agreement. We did not have any amounts outstanding under the Amended Credit Agreement at September 30, 2016 .

On July 29, 2013, we announced that our Board of Directors had authorized a stock buyback program to repurchase up to \$100 million of our common stock from time to time on the open market or in privately negotiated transactions. The stock buyback program is being funded using our working capital. During the nine months ended September 30, 2016 , we repurchased and retired 0.9 million shares under our stock buyback program for \$7.1 million in the aggregate, including transaction fees. During the nine months ended September 25, 2015 , we repurchased and retired 0.4 million shares under our stock buyback program for \$6.1 million in the aggregate, including transaction fees. These amounts are included in financing activities in our condensed consolidated statements of cash flows for the nine months ended September 30, 2016 and September 25, 2015 .

Our operating activities provided \$10.0 million of cash in the nine months ended September 30, 2016 and \$1.7 million of cash in the nine months ended September 25, 2015 .

Cash provided by operating activities in the nine months ended September 30, 2016 was primarily the result of our non-cash operating expenses, partially offset by our net loss, and lower accounts receivable and inventory. These amounts were partially offset by an increase in other operating assets and decreases in accrued expenses and other long-term liabilities, accounts payable and deferred revenue. Our lower accounts receivable primarily reflects our focused collections efforts. The decrease in accrued expenses and other long-term liabilities was primarily related to employee compensation and related costs,

including payments made in connection with our Company-wide cash bonus program and sales commissions, as well as payments made in connection with our previously recorded restructuring initiatives. Our net loss, adjusted for non-cash items such as depreciation, amortization and stock-based compensation, provided \$15.6 million of cash.

Cash provided by operating activities in the nine months ended September 25, 2015 was primarily the result of lower accounts receivable and other operating assets and higher deferred revenue, partially offset by an increase in inventory and decreases in accrued expenses and other long-term liabilities and accounts payable, as well as our net loss, net of non-cash operating expenses. Our lower accounts receivable reflected our focused collections efforts, coupled with lower revenue recorded in the nine months ended September 25, 2015 compared to the prior year. The increase in our inventory primarily reflected our reduced product sales in the nine months ended September 25, 2015 compared to original projections. The decrease in accrued expenses and other long-term liabilities was primarily related to employee compensation and related costs, including payments in connection with our Company-wide cash bonus program, payments in connection with our restructuring initiatives and lower accruals for our Amended and Restated 2000 Employee Stock Purchase Plan, as amended (the "ESPP"), as a purchase was completed on behalf of participating employees on August 31, 2015. Our net loss, adjusted for non-cash items such as depreciation, amortization and stock-based compensation, used \$4.4 million of cash.

Our investing activities used \$20.6 million of cash in the nine months ended September 30, 2016, comprised of \$20.7 million of cash paid as consideration for business acquisitions, including \$19.9 million related to the acquisition of Taqua and \$0.8 million paid as the final consideration installment for the acquisition of the SDN Business, coupled with \$3.6 million of investments in property and equipment. These amounts were partially offset by \$2.9 million of net sales and maturities of marketable securities.

Our investing activities provided \$6.4 million of cash in the nine months ended September 25, 2015, comprised of \$23.8 million of net maturities of marketable securities, partially offset by \$10.9 million of cash paid, net of cash acquired, for the acquisition of the SDN Business and \$6.4 million of investments in property and equipment.

Our financing activities used \$7.2 million of cash in the nine months ended September 30, 2016, comprised of \$7.1 million, including transaction fees, for the repurchase of common stock, \$1.5 million used to pay withholding obligations related to the net share settlement of restricted stock awards upon vesting and approximately \$33,000 for payments on our capital leases for office equipment. These amounts were partially offset by \$1.4 million of proceeds from the sale of our common stock in connection with our ESPP and \$0.1 million of proceeds from the exercise of stock options.

Our financing activities used \$4.3 million of cash in the nine months ended September 25, 2015, comprised of \$6.1 million, including transaction fees, for the repurchase of common stock, \$2.3 million used to pay withholding obligations related to the net share settlement of restricted stock awards upon vesting and \$0.1 million for payments on our capital leases for office equipment. These amounts were partially offset by \$2.4 million of proceeds from the sale of our common stock in connection with our ESPP and \$1.8 million of proceeds from the exercise of stock options.

Based on our current expectations, we believe our current cash, cash equivalents, marketable securities and long-term investments will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least twelve months, including any future stock repurchases under the aforementioned stock buyback program and any contingent consideration payments required in connection with our acquisition of Taqua. It is difficult to predict future liquidity requirements with certainty. The rate at which we will consume cash will be dependent on the cash needs of future operations, including changes in working capital, which will, in turn, be directly affected by the successful implementation of our cost reduction initiatives, the levels of demand for our products, the timing and rate of expansion of our business, the resources we devote to developing our products and any litigation settlements. We anticipate devoting substantial capital resources to continue our research and development efforts, to maintain our sales, support and marketing, to improve our controls environment, for other general corporate activities and to vigorously defend against existing and potential litigation. See Note 15 to our condensed consolidated financial statements for a description of our contingencies.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"), which amends the guidance in Accounting Standards Codification ("ASC") 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of ASU 2016-15 is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. ASU 2016-15 adds or clarifies guidance on eight cash flow issues, including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or certain other debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance

claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for us beginning January 1, 2018 for both interim and annual reporting periods, with early adoption permitted. Entities must apply the guidance retrospectively to all periods presented but may apply it prospectively from the earliest date practicable if retrospective application would be impracticable. We are currently assessing the potential impact of the adoption of ASU 2016-15 on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which adds an impairment model that is based on expected losses rather than incurred losses. Under ASU 2016-13, an entity recognizes as an allowance its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. ASU 2016-13 is effective for us beginning January 1, 2020 for both interim and annual reporting periods, with early adoption permitted. We do not expect the adoption of ASU 2016-13 will have a material impact on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"), which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for us beginning January 1, 2017 for both interim and annual reporting periods, with early adoption permitted. We are currently assessing the potential impact of the adoption of ASU 2016-09 on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842) Section A - Leases: Amendments to the FASB Accounting Standards Codification* ("ASU 2016-02"), its new standard on accounting for leases. ASU 2016-02 introduces a lessee model that brings most leases onto the balance sheet. The new standard also aligns many of the underlying principles of the new lessor model with those in ASC 606, the FASB's new revenue recognition standard (i.e., those related to evaluating when profit can be recognized). Furthermore, ASU 2016-02 addresses other concerns related to the current leases model. For example, ASU 2016-02 eliminates the current GAAP requirement for an entity to use bright-line tests in determining lease classification. ASU 2016-02 is effective for us for both interim and annual periods beginning January 1, 2019. We are currently assessing the potential impact of the adoption of ASU 2016-02 on our consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17"), which requires entities to present deferred tax assets and deferred tax liabilities as noncurrent in the condensed consolidated balance sheet. Netting of deferred tax assets and deferred tax liabilities is still required under ASU 2015-17. The ASU is effective for us for our annual report of the year ending December 31, 2018 and for interim period reporting beginning January 1, 2019, with early adoption permitted. We elected to early-adopt ASU 2015-17 prospectively and accordingly, we reclassified our net current deferred tax asset totaling \$1.0 million to our noncurrent net deferred tax asset as of December 31, 2015. No prior periods were retrospectively adjusted. The early adoption of ASU 2015-17 did not have a material impact on our consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments* ("ASU 2015-16"), which eliminates the requirement to restate prior periods to reflect adjustments made to provisional amounts recognized in a business combination. Under ASU 2015-16, an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, rather than retrospectively, as had previously been required. ASU 2015-16 also requires acquirers to present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 was effective for us as of January 1, 2016. The adoption of ASU 2015-16 did not have a material impact on our consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory* ("ASU 2015-11"), which simplifies the measurement of inventory by requiring entities to measure most inventory at the lower of cost and net realizable value, replacing the previous requirement to measure most inventory at the lower of cost or market. ASU 2015-11 does not apply to inventories that are measured by using either the last-in, first-out method or the retail inventory method. ASU 2015-11 is effective for us for both interim and annual reporting periods beginning January 1, 2017. The adoption of ASU 2015-11 is not expected to have a material impact on our consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"), which provides guidelines for determining when and how to disclose going concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of

an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. ASU 2014-15 is effective for us for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. The adoption of ASU 2014-15 is not expected to have a material impact on our consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, *Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force)* ("ASU 2014-12"). ASU 2014-12 clarifies that entities should treat performance targets that can be met after the requisite service period of a share-based payment award as performance conditions that affect vesting. Therefore, an entity would not record compensation expense (measured as of the grant date without taking into account the effect of the performance target) related to an award for which transfer to the employee is contingent on the entity's satisfaction of a performance target until it becomes probable that the performance target will be met. ASU 2014-12 does not contain any new disclosure requirements. ASU 2014-12 was effective for us as of January 1, 2016. The adoption of ASU 2014-12 did not have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), its final standard on revenue from contracts with customers. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the revenue model to contracts within its scope, an entity identifies the contract(s) with a customer, identifies the performance obligations in the contract, determines the transaction price, allocates the transaction price to the performance obligations in the contract and recognizes revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 applies to all contracts with customers that are within the scope of other topics in the FASB ASC. Certain of ASU 2014-09's provisions also apply to transfers of nonfinancial assets, including in-substance nonfinancial assets that are not an output of an entity's ordinary activities (i.e., property, plant and equipment; real estate; or intangible assets). Existing accounting guidance applicable to these transfers has been amended or superseded. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* ("ASU 2015-14"), which defers the original effective date of interim and annual reporting periods by one year. As a result, we will not be required to apply the new revenue standard until annual reporting periods beginning after December 15, 2017. In March 2016, the FASB issued ASU 2016-08, *Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)* ("ASU 2016-08") to clarify certain aspects of the principal-versus-agent guidance in its new revenue recognition standard in response to feedback received from the FASB-International Accounting Standards Board joint revenue recognition transition resource group. ASU 2016-08 clarifies the implementation guidance on principal-versus-agent considerations regarding how an entity determines whether it is a principal or an agent for each specified good or service promised to the customer and how an entity determines the nature of each specified good or service. ASU 2016-08 also provides clarification regarding the application of the principal-versus-agent guidance. In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* ("ASU 2016-10"), which amends certain aspects of the guidance in ASU 2014-09 on identifying performance obligations, including immaterial promised goods or services, shipping and handling activities and identifying when promises represent performance obligations; and licensing implementation guidance, including determining the nature of an entity's promise in granting a license, sales-based and usage-based royalties, restrictions of time, geographical location and use, and renewals of licenses that provide a right to use IP. In May 2016, the FASB issued ASU 2016-11, *Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815)* ("ASU 2016-11"), which rescinds certain SEC guidance from the Codification in response to announcements made by the SEC staff at the Emerging Issues Task Force's March 3, 2016 meeting, and which supersedes certain SEC observer comments on the topics of revenue and expense recognition for freight services in process, accounting for shipping and handling fees and costs, accounting for consideration given by a vendor to a customer and accounting for gas-balancing arrangements upon the adoption of ASU 2014-09. In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2016-12"), which amends certain aspects of ASU 2014-09, including regarding collectability, the presentation of sales tax and other similar taxes collected from customers, non-cash consideration, contract modifications and completed contracts at transition. ASU 2016-08, ASU 2016-10, ASU 2016-11 and ASU 2016-12 are effective at the same time as ASU 2014-09 (as amended by ASU 2015-14). We are currently assessing the potential impact of the adoption of these ASUs on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to a variety of market risks, including changes in interest rates affecting the return on our investments and

foreign currency fluctuations. We do not believe that a hypothetical 10% adverse movement in interest rates and foreign currency exchange rates would have a materially different impact from what was disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015 .

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 September 30, 2016 .

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 September 30, 2016 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

On April 6, 2015, Ming Huang, a purported shareholder of ours, filed a Class Action Complaint (Civil Action No. 3:15-02407), alleging violations of the federal securities laws (the "Complaint") in the United States District Court for the District of New Jersey (the "District of New Jersey"), against us and two of our officers, Raymond P. Dolan, our President and Chief Executive Officer, and Mark T. Greenquist, our former Chief Financial Officer (collectively, the "Defendants"). On September 21, 2015, in response to motions subsequently filed with the District of New Jersey by four other purported shareholders of ours seeking status as lead plaintiff, the District of New Jersey appointed Richard Sousa as lead plaintiff (the "Plaintiff"). The Plaintiff claims to represent purchasers of our common stock during the period from October 23, 2014 to March 24, 2015, and seeks unspecified damages. The principal allegation contained in the Complaint is that the Defendants made misleading forward-looking statements concerning our fiscal first quarter of 2015 financial performance. On September 22, 2015, we filed a Motion to Transfer (the "Motion to Transfer") this case to the United States District Court for the District of Massachusetts. The Plaintiff filed his opposition to the Motion to Transfer on October 5, 2015, and we filed a reply to the Motion to Transfer on October 13, 2015. On March 21, 2016, the District of New Jersey granted our Motion to Transfer. Thus, this case will now be litigated in the United States District Court for the District of Massachusetts (Civil Action No. 1:16-cv-10657-GAO). On May 4, 2016, the Plaintiff filed an amended complaint (the "Amended Complaint"), which is now the operative complaint in this litigation. On June 20, 2016, the Company and the other Defendants filed a Motion to Dismiss the Amended Complaint (the "Motion to Dismiss") and on July 25, 2016, the Plaintiff filed an opposition to the Motion to Dismiss. We filed our reply to the Plaintiff's opposition to the Motion to Dismiss on August 15, 2016. We believe that the Defendants have meritorious defenses to the allegations made in the Amended Complaint and do not expect the results of this suit to have a material effect on our business or consolidated financial statements.

We are often a party to disputes and legal proceedings that we consider routine and incidental to our business. Management does not expect the results of any of these actions to have a material effect on our business or consolidated financial statements.

Item 1A. Risk Factors

We have revised and updated our discussion of the risk factors affecting our business since those presented in our Quarterly Report on Form 10-Q, Part II, Item 1A. for the quarter ended June 30, 2016. The following discussion includes seven revised risk factors: "If we fail to realize the anticipated benefits from our acquisitions of PT, Taqua and the SDN Business on a timely basis, or at all, our business and financial condition may be adversely affected", "Restructuring activities could adversely affect our ability to execute our business strategy", "We may face risks related to litigation that could result in significant legal expenses and settlement or damage awards", "We depend upon contract manufacturers and any disruption in these relationships may cause us to fail to meet the demands of our customers and damage our customer relationships. Additionally, in the event we elect to consolidate and/or change any of our manufacturers, qualifying a new contract manufacturer to commence commercial scale production or consolidating to a reduced number of contract manufacturers are expensive and time-consuming and could affect our business", "If we fail to hire and retain needed personnel, the implementation of our business plan could slow or our future growth could be jeopardized", "Consolidation in the telecommunications industry could harm our business" and "If our goodwill or intangible assets become impaired, we may be required to record a significant

charge to earnings" and one new risk factor, "The acquisition of Taqua may result in additional expenses that could adversely affect the financial results of the combined company", which reflect material developments subsequent to the discussion of risk factors included in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2016. Except for the eight risk factors noted above, there have been no material changes in our assessment of our risk factors from those set forth in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2016. For convenience, all of our risk factors are included below.

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below before buying our common stock. If any of the following risks actually occurs, our business, financial condition, results of operations and cash flows could be materially adversely affected, the trading price of our common stock could decline materially and you could lose all or part of your investment.

Our quarterly revenue and operating results are unpredictable and may fluctuate significantly from quarter to quarter, which could adversely affect our business, consolidated financial statements and the trading price of our common stock.

Our revenues and operating results may vary significantly from quarter to quarter due to a number of factors, many of which are outside of our control and any of which may cause our stock price to fluctuate. The primary factors that may affect our revenues and operating results include, but are not limited to, the following:

- consolidation within the telecommunications industry, including acquisitions of or by our customers;
- general economic conditions in our markets, both domestic and international, as well as the level of discretionary IT spending;
- competitive conditions in our markets, including the effects of new entrants, consolidation, technological innovation and substantial price discounting;
- fluctuation in demand for our products and services, and the timing and size of customer orders;
- fluctuations in foreign exchange rates;
- cancellation or deferral of existing customer orders or the renegotiation of existing contractual commitments;
- mix of product configurations sold;
- length and variability of the sales cycle for our products;
- application of complex revenue recognition accounting rules to our customer arrangements;
- timing of revenue recognition;
- changes in our pricing policies, the pricing policies of our competitors and the prices of the components of our products;
- market acceptance of new products, product enhancements and services that we offer;
- the quality and level of our execution of our business strategy and operating plan, and the effectiveness of our sales and marketing programs;
- new product announcements, introductions and enhancements by us or our competitors, which could result in deferrals of customer orders;
- our ability to develop, introduce, ship and successfully deliver new products and product enhancements that meet customer requirements in a timely manner;
- our reliance on contract manufacturers for the production and shipment of our hardware products;
- our or our contract manufacturers' ability to obtain sufficient supplies of sole or limited source components or materials;
- our ability to attain and maintain production volumes and quality levels for our products;
- variability and unpredictability in the rate of growth in the markets in which we compete;
- costs related to acquisitions; and
- corporate restructurings.

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

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

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

We incurred net losses in the first three quarters of 2016, as well as in fiscal years 2015 and 2014. We may incur additional net losses in future quarters and years. Our revenues may not grow and we may never generate sufficient revenues to sustain profitability.

We will not be successful if we do not grow our customer base, especially since our revenue has historically been generated from a limited number of customers and the per-order revenue from orders placed by the majority of our new customers is generally lower than the per-order revenue generated from our historical sales. Additionally, if we are unable to generate recurring business from our existing customers, our consolidated financial statements could be materially and adversely affected.

Prior to our acquisition of Network Equipment Technologies, Inc. ("NET") in August 2012, we had shipped our products to a limited number of customers. Since the acquisition of NET, as well as our acquisition of Performance Technologies, Incorporated ("PT") in February 2014, the number of customers to whom we have shipped our products has increased significantly. However, due to the nature of certain of our new product offerings, the per-order revenue from orders placed by the majority of our new customers is generally lower than the per-order revenue generated from our historical sales.

Our future success will depend on our ability to attract additional customers beyond our current customer base. One customer, AT&T, contributed more than 10% of our revenue in each of the past three years, representing approximately 13% of our revenue in 2015, 19% of our revenue in 2014 and 15% of our revenue in 2013. Factors that may affect our ability to grow our customer base include but are not limited to the following:

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

If we are unable to expand our customer base, we will be forced to rely on generating recurring revenue from existing customers, which may not be successful. We expect to derive an increasing percentage of our revenue from engagements with our value-added resellers ("VAR") and global system integration partners; however, in the foreseeable future, the majority of our revenue will continue to depend on sales of our products to a limited number of existing customers or sales to customers with lower per-order revenue than those generated from our historical sales. Factors that may affect our ability to generate recurring revenues from our existing customers include but are not limited to the following:

- customer willingness to implement our products;
- the timing of industry transitions to new network technologies;
- acquisitions of or by our customers;
- delays or difficulties that we may incur in completing the development and introduction of our planned products or product enhancements;
- failure of our products to perform as expected; and
- difficulties we may incur in meeting customers' delivery requirements or with software development, hardware design, manufacturing or marketing of our products and/or services.

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

We continue to enhance our sales strategy, which we expect will include more partner sales engagements to resell our products and services through authorized Sonus distributors, value added resellers, system integrators and other channel partners. Disruptions to, or our failure to effectively develop and manage, these partners and the processes and procedures that support them could adversely affect our ability to generate revenues from the sale of our products and services. If we do not have adequate personnel, experience and resources to manage the relationships with these partners and to fulfill our

responsibilities under such arrangements, such shortcomings could lead to the decrease of the sales of our products and services and our operating results could suffer.

We continue to enhance our sales strategy, which we expect will include more partner sales engagements to resell our products and services through authorized Sonus distributors, value added resellers, system integrators and other channel partners. Our future success is dependent upon establishing and maintaining successful relationships with a variety of distributors, value added resellers, system integrators and other channel partners. We may also need to pursue strategic partnerships with vendors who have broader technology or product offerings in order to compete with end-to-end solution providers. In addition, many of the enterprise markets we are pursuing require a broad network of resale partners in order to achieve effective distribution.

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

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

As the telecommunications industry and the requirements of our current and potential customers evolve, we are redirecting certain of our resources to more readily respond to the changing environment through the research and development of innovative new products and the improvement of existing products. If our strategic plan is not aligned with the direction our customers take as they invest in the evolution of their networks, customers may not buy our products or use our services.

Success in our industry requires large investments in technology and creates exposure to rapid technological and market changes. We spend a significant amount of time, money and resources both developing new technology, products and solutions and acquiring new businesses or business assets, as applicable, such as NET in August 2012, PT in February 2014 and Taqua, LLC ("Taqua") in September 2016. In January 2015, we acquired from Treq Labs, Inc. ("Treq") certain assets related to Treq's business of designing, developing, marketing, selling, servicing and maintaining software-defined networking ("SDN") technology, SDN controller software and SDN management software (the "SDN Business"). Our strategic plan includes a significant shift in our investments from mature technologies that previously generated significant revenue for us toward certain next-generation technologies, as well as working with channel partners to sell our products. In order for us to be successful, our technologies, products and solutions must be accepted by relevant standardization bodies and by the industry as a whole. Our choices of specific technologies to pursue, and those to de-emphasize, may prove to be inconsistent with our customers' investment spending. Our success also depends upon our ability to integrate new and acquired products and services, as well as our ability to enhance our existing products and services. Moreover, if we invest in the development of technologies, products and solutions that do not function as expected, are not adopted by the industry, are not ready in time, are not accepted by our customers as quickly as anticipated or are not successful in the marketplace, our sales and earnings may suffer and, as a result, our stock price could decline. As technology advances, we may not be able to respond quickly or effectively to developments in the market for our products, or new industry standards may emerge and could render our existing or future products and services obsolete. If our products and services become technologically obsolete or if we are unable to develop successor products and services that are accepted by our customers, we may be unable to sell our products and services in the marketplace and face declines in sales. We may also experience difficulties with software development, hardware design, manufacturing or marketing that could delay or prevent our development, introduction or marketing of new products and enhancements.

We believe the telecommunications industry is in the early stages of a major architectural shift to the virtualization of networks. If the architectural shift does not occur, if it does not occur at the pace we predict, or if the products and services we have developed are not attractive to our customers after such shift takes place, our revenues could decline.

We believe the telecommunications industry is in the early stages of transitioning to the virtualization of networks, and we are developing products and services that we believe will be attractive to our customers and potential customers who make that shift. While we anticipate that the industry shift to a software-centric cloud-based architecture is all but certain to happen, fundamental changes like this often take time to accelerate. In addition, our customers may adapt to such changes at varying rates. As our customers take time to determine their future network architectures, we may encounter delayed timing of orders, deferred purchasing decisions and reduced expenditures. These longer decision cycles and reduced expenditures may negatively impact our revenues, or make it difficult for us to accurately predict our revenues, either of which could materially adversely affect our consolidated financial statements and cause our stock price to decline.

In 2012, the macro-environment for our media gateway trunking business faced significant declining revenues that happened faster than we were anticipating. In the past four years, we continued to experience significant declines in customer spending in our media gateway trunking business, and these declines have continued to date. Even though we continue to transform our company from a media gateway trunking business to an SBC and DSC business, a portion of our current revenue remains dependent upon the commercial success of our voice infrastructure products, which we believe will remain true for the foreseeable future. If the market for these products continues to significantly decline and if our SBC and DSC sales do not accelerate as quickly as we forecast, our operating results could suffer.

While we continue to transform our company from a media gateway trunking business to a Session Border Controller ("SBC") and Diameter Signaling Controller ("DSC") business, a portion of our current revenue still depends upon the commercial success of our TDM-to-IP and our all-IP voice infrastructure products and solutions, and we believe this will remain true for the foreseeable future. If the market for these products continues to significantly decline and if our SBC and DSC sales do not accelerate as quickly as we forecast, our operating results could suffer.

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

We recorded net restructuring expense of \$13.2 million in the aggregate in 2015, 2014 and 2013, comprised of \$12.5 million for severance and related costs, \$0.5 million for the consolidation of certain facilities and \$0.2 million for the write-off of assets associated with the headcount reduction and facilities consolidations. We initiated a restructuring plan in April 2015 pursuant to which we reduced our workforce by approximately 150 positions, or 12.5% of our worldwide workforce. We also announced, on July 27, 2016, that we were initiating a new restructuring program to further accelerate our investment in new technologies as the communications industry migrates to a cloud-based architecture. We expect to record between \$3 million and \$4 million of restructuring expense over the next twelve months in connection with this action. In connection with the acquisition of Taqua, our management also initiated an immaterial restructuring plan in the third quarter of 2016 to eliminate certain redundant positions within the combined companies. On October 24, 2016, our Audit Committee approved a broader Taqua restructuring plan related to headcount and redundant facilities. In connection with this initiative, we recorded \$0.4 million in the three months ended September 30, 2016 and we expect to record approximately \$1 million to \$2 million of additional restructuring expense through the end of the second quarter of 2017.

This restructuring and any future restructurings, should it become necessary for us to continue to restructure our business due to worldwide market conditions or other factors that reduce the demand for our products and services, could adversely affect our ability to execute our business strategy in a number of ways, including through:

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

If we fail to realize the anticipated benefits from our acquisitions of PT, Taqua and the SDN Business on a timely basis, or at all, our business and financial condition may be adversely affected.

We may fail to realize the anticipated benefits from our acquisitions of PT, Taqua and/or the SDN Business on a timely basis, or at all, for a variety of reasons, including but not limited to the following:

- problems or delays in assimilating or transitioning to us the acquired assets, operations, systems, processes, controls, technologies, products or personnel;

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

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

The acquisition of Taqua may result in additional expenses that could adversely affect the financial results of the combined company.

The financial results of Sonus and Taqua as a combined company may be adversely affected by cash expenses and non-cash accounting charges incurred in connection with the combination. The amount and timing of these possible charges are not yet known. The price of our common stock could decline to the extent the combined company's financial results are materially affected by these charges.

Any future investments, mergers or acquisitions we make or enter into, as applicable, could be difficult to integrate, disrupt our business, dilute shareholder value and seriously harm our financial condition.

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

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

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

If in the future we do not have a sufficient number of shares available to issue to our employees, the limited number of shares we could issue may impact our ability to attract, retain and motivate key personnel.

We historically have used stock options, restricted stock and other equity awards as a significant component of our employee compensation program in order to align our employees' interests with the interests of our stockholders, encourage employee

retention and provide competitive compensation packages. In 2007, our stockholders approved our 2007 Stock Incentive Plan (the "2007 Plan"), which includes a limited amount of shares to be granted under such 2007 Plan. Our stockholders approved amendments to the 2007 Plan in June 2010, June 2013, December 2014 and June 2015. At our 2016 annual meeting of stockholders, our stockholders approved an amendment and restatement of the 2007 Plan (as amended and restated, the "Stock Plan") that, among other things, increased the aggregate number of shares of our common stock authorized for issuance under the Stock Plan by 800,000 new shares, from 15,676,713 shares to 16,476,713 shares. However, our stockholders did not approve the proposed stock option exchange program that, if implemented, would have returned shares of our common stock to the Stock Plan that would then be available for future issuance under the Stock Plan.

Since only one of these proposals was approved at our 2016 annual meeting of stockholders, we may not have sufficient shares for our needs in the near future. If our stockholders do not approve any other future amendments that we determine are needed to the Stock Plan, the limited number of shares available for use as equity incentives to employees may make it more difficult for us to attract, retain and motivate key personnel.

Worldwide efforts to contain capital spending, general uncertainty as to slow economic growth during the current post-recessionary global economy, the possibility of another recession and a continued weakened global economy could have a material adverse effect on us.

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

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

- reduced demand for our products and services as a result of our customers choosing to refrain from building capital intensive networks;
- increased price competition for our products, not only from our competitors, but also as a consequence of customers disposing of unutilized products;
- risk of excess and obsolete inventories;
- excess facilities and manufacturing capacity; and/or
- higher overhead costs as a percentage of revenue and higher interest expense.

Continuing turmoil in the geopolitical environment in many parts of the world, including terrorist activities and military actions, as well as political and economic issues in many regions, including the uncertainty arising from the recent referendum vote in the UK in favor of exiting the European Union, continue to put pressure on global economic conditions. Our operating results and our ability to expand into other international markets may also be affected by changing economic conditions particularly germane to that sector or to particular customer markets within that sector.

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

Competition in the telecommunications market is intense. This market has historically been dominated by large incumbent telecommunications equipment companies, such as Ericsson LM Telephone Company and Huawei Technologies Co. Ltd., both of which are our direct competitors. We also face competition from other telecommunications and networking companies, including Alcatel Lucent, ALOE Systems Inc., AudioCodes Ltd., Avaya Inc., Cisco Systems, Inc., Dialogic Inc., F5 Networks, Inc., GENBAND Inc., Metaswitch Networks Corporation, Mitel Networks Corporation, Nokia Systems Network (NSN), Oracle Corporation, Sansay, Inc., Technicolor SA and ZTE Corporation, all of which design competing products. These or other competitors may also merge, intensifying competition. Additional competitors with significant financial resources may enter our markets and further intensify competition.

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

To compete effectively, we must deliver innovative products that:

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

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

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

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

Many of our customers will require that our products be designed to interface with their existing networks, each of which may have different specifications. Issues caused by an unanticipated lack of interoperability may result in significant warranty, support and repair costs, divert the attention of our engineering personnel from our hardware and software development efforts and cause significant customer relations problems. If our products do not interoperate with those of our customers' networks, installations could be delayed or orders for our products could be canceled, which would seriously harm our gross margins and result in loss of revenues or customers. Additionally, our customers may decide to devote a significant portion of their budgets to evolving technology as they consider national or worldwide build-outs. Therefore, if the demand for our products is not strong and if our target customers do not adopt, purchase and successfully deploy our current or planned products, our revenues will not grow.

Our large customers have substantial negotiating leverage, and they may require that we agree to terms and conditions that may have an adverse effect on our business.

Large communications service providers have substantial purchasing power and leverage in negotiating contractual arrangements with us. These customers may, among other things, require us to develop additional features, require penalties for failure to deliver such features, require us to partner with a certain reseller before purchasing our products and/or seek discounted product and/or service pricing. As we sell more products to this class of customer, we may be required to agree to terms and conditions that are less beneficial to us, which may affect the timing of revenue recognition, amount of deferred revenues or product and service margins and may adversely affect our financial position and cash flows in certain reporting periods.

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

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

- addition or loss of any major customer;
- continued significant declines in customer spending in the media gateway trunking business;

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

Furthermore, brokerage firms often do not permit stocks trading below \$5.00 per share to be sold short, but often permit short-selling of shares which are traded at higher prices. As a result, to the extent our per-share trading price is consistently above \$5.00, investors may short our stock. This may increase the volatility of our stock price.

Our Amended Credit Agreement contains financial and operating restrictions that may limit our access to credit. If we fail to comply with covenants in the Amended Credit Agreement, we may be required to repay any potential indebtedness thereunder, which may have an adverse effect on our liquidity.

The Amended Credit Agreement provides us with a revolving credit facility of up to \$20 million. Provisions in the Amended Credit Agreement impose limitations on our ability to, among other things:

- incur additional indebtedness;
- create liens;
- enter into transactions with affiliates;
- dispose of assets;
- make certain investments; and
- merge or consolidate.

In addition, we are required to meet certain financial covenants customary for financings of this type. Our failure to comply with these covenants may result in the declaration of an event of default, which could cause us to be unable to borrow under the Amended Credit Agreement or result in the acceleration of the maturity of indebtedness outstanding under the Amended Credit Agreement at such time. If the maturity of our indebtedness is accelerated, we may not have sufficient funds available for repayment or we may not have the ability to borrow or obtain sufficient funds to replace the accelerated indebtedness on terms acceptable to us, or at all. We are also subject to a 0.1125% commitment fee on any unused commitments available for borrowing.

Furthermore, while we had no amounts outstanding under the Amended Credit Agreement as of September 30, 2016, we may wish to draw on this facility in the future.

Our business could be jeopardized if we are unable to protect our intellectual property; additionally, in some jurisdictions, our rights may not be as strong as we currently enjoy in the United States.

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

Claims that our current or future products infringe or misappropriate the proprietary rights of others could adversely affect our ability to sell those products and cause us to incur additional costs.

Substantial litigation over intellectual property rights exists in the telecommunications industry. We expect that we could be increasingly subject to third-party infringement claims as our revenue increases, the number of competitors grows and/or the functionality of products and technology in different industry segments overlaps. Third parties may currently have, or may eventually be issued, patents on which our current or future products or technologies may allegedly infringe. For example, there has been a n increase in the industry of third-party infringement claims brought by Non-Practicing Entities, also known as patent trolls.

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

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

Patent litigation, regardless of its outcome, will likely result in the expenditure of significant financial resources and the diversion of management's time and resources. In addition, patent litigation may cause negative publicity, adversely impact prospective customers, cause product shipment delays, prohibit us from manufacturing, marketing or selling our current or future products, require us to develop non-infringing technology, make substantial payments to third parties or enter into royalty or license agreements, which may not be available on acceptable terms or at all. If a third party's claim of infringement against us in a particular patent litigation is successful, and we could not develop non-infringing technology or license the infringed or similar technology on a timely and cost-effective basis, our revenue may decrease substantially and we could be exposed to significant liability. A court could enter orders that temporarily, preliminarily or permanently enjoin us or our customers from making, using, selling, offering to sell or importing our current or future products, or could enter an order mandating that we undertake certain remedial activities. Although historically our costs to defend lawsuits relating to indemnification provisions in our product agreements have been insignificant, the costs may be significant in future periods.

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

From time to time, we are subject to claims and litigation regarding intellectual property rights or other claims, which could seriously harm our business and require us to incur significant costs. We are currently subject to a purported class action litigation alleging violations of the federal securities laws in federal district court against us and two of our officers, Raymond P. Dolan, our President and Chief Executive Officer, and Mark T. Greenquist, our former Chief Financial Officer (collectively, the "Defendants"). The plaintiff in the case claims to represent purchasers of our common stock during the period from October 23, 2014 and March 24, 2015, and seeks unspecified damages. The principal allegation contained in the complaint is that the Defendants made misleading forward-looking statements concerning our first quarter of 2015 financial performance. We are also fully cooperating with an SEC inquiry regarding the development and issuance of the Company's first quarter 2015 revenue and earnings guidance. At this time, it is not possible to predict the outcome of the SEC's inquiry, including whether or not any proceedings will be initiated or, if so, when or how the matter will be resolved.

In the past, we have also been named as a defendant in other securities class action and derivative lawsuits. We are generally obliged, to the extent permitted by law, to indemnify our current and former directors and officers who are named as defendants in these lawsuits. Defending against litigation may require significant attention and resources of management. Regardless of the outcome, such litigation could result in significant legal expenses.

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

If we are a party to material litigation and if the defenses we claim are ultimately unsuccessful, or if we are unable to achieve a favorable settlement, we could be liable for large damage awards that could have a material adverse effect on our business and consolidated financial statements.

Actions that may be taken by significant stockholders may divert the time and attention of our Board of Directors and management from our business operations.

Campaigns by significant investors to effect changes at publicly-traded companies continue to be prevalent. There can be no assurance that one or more current or future stockholders will not pursue actions to effect changes in our management and strategic direction, including through the solicitation of proxies from our stockholders. If a proxy contest were to be pursued by any stockholder, it could result in substantial expense to us, consume significant attention of our management and Board of Directors, and disrupt our business.

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

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

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

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

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

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

We are exposed to fluctuations in currency exchange rates that could negatively impact our financial results and cash flows.

Because a portion of our business is conducted outside the United States, we face exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve, and they could have a material adverse impact on our financial results and cash flows. An increase in the value of the dollar could increase the real cost to our customers of our products in those markets outside the United States where we often sell in dollars, and a weakened dollar could increase the cost of local operating expenses and procurement of raw materials from sources outside the United States.

We may face risks associated with our international expansion that could impair our ability to grow our international revenues. If we fail to manage the operational and financial risks associated with our international operations, it could have a material adverse effect on our business and consolidated financial statements.

We have expanded, and expect to continue to expand, our operations in international and emerging markets. International operations are a significant part of our business, and such operations will continue to require significant management attention

and financial resources to successfully develop direct and indirect international sales and support channels. In addition, our international operations are subject to other inherent risks, including:

- reliance on channel partners;
- greater difficulty collecting accounts receivable and longer collection cycles;
- difficulties and costs of staffing and managing international operations;
- impacts of differing technical standards outside the United States;
- compliance with international trade, customs and export control regulations;
- reduced protection for intellectual property rights in some countries;
- foreign government regulations limiting or prohibiting potential sales or increasing the cost of doing business in such markets, including reversals or delays in the opening of foreign markets to new competitors or the introduction of new technologies;
- challenging pricing environments in highly competitive new markets;
- foreign currency exchange controls, restrictions on repatriation of cash and changes in currency exchange rates;
- potentially adverse tax consequences; and
- political, social and economic instability, including as a result of the fragility of global financial markets, health pandemics or epidemics and/or acts of war or terrorism.

Our international revenue, both as a percentage of total revenue and absolute dollars, may vary from one period to the next, and accordingly, current data may not be indicative of future periods. If we are unable to support our business operations in international and emerging markets, or their further expansion, while balancing the higher operational and financial risks associated with these markets, our business and consolidated financial statements could be harmed.

In addition, we may not be able to develop international market demand for our products, which could impair our ability to grow our revenues. In many international markets, long-standing relationships between potential customers and their local suppliers and protective regulations, including local content requirements and approvals, create barriers to entry. We have limited experience marketing, distributing and supporting our products in certain international locations and, to do so, we expect that we will need to develop versions of our products that comply with local standards. Moreover, difficulties in foreign financial markets and economies and of foreign financial institutions, particularly in emerging markets, could adversely affect demand from customers in the affected countries.

We depend upon contract manufacturers and any disruption in these relationships may cause us to fail to meet the demands of our customers and damage our customer relationships. Additionally, in the event we elect to consolidate and/or change any of our manufacturers, qualifying a new contract manufacturer to commence commercial scale production or consolidating to a reduced number of contract manufacturers are expensive and time-consuming activities and could affect our business.

While we currently work with four contract manufacturers, we primarily rely upon one large global manufacturer to assemble our products according to our specifications and to fulfill orders on a timely basis. Reliance on a third-party manufacturer involves a number of risks, including a lack of control over the manufacturing process, inventory management and the potential absence or unavailability of adequate capacity. We do not have the internal manufacturing capabilities to meet our customers' demands. Any difficulties or failures to perform by our contract manufacturers could cause delays in customer product shipments or otherwise negatively affect our results of operations.

In connection with the acquisition of PT in 2014, we increased the number of contract manufacturers we worked with from three to four contract manufacturers. However, by December 31, 2014, we had reduced the number of contract manufacturers to three. With the acquisition of Taqua in September 2016, we increased the number of contract manufacturers we work with from three to four. Additionally, we switched from one single-source manufacturer to another in 2009, as well as in 2011. Any future changes to or consolidations of our current contract manufacturers could lead to material shortages or delays in the supply of our products. In the event we elect to continue to consolidate and/or change any of our manufacturers, qualifying a new contract manufacturer to commence commercial scale production or consolidating to a reduced number of contract manufacturers are expensive and time-consuming activities and could result in a significant interruption in the supply of our products. If a change in contract manufacturers results in delays in our fulfillment of customer orders or if a contract manufacturer fails to make timely delivery of orders, we may lose revenues and suffer damage to our customer relationships.

We and our contract manufacturers rely on single or limited sources for supply of some components of our products and if we fail to adequately predict our manufacturing requirements or if our supply of any of these components is disrupted, we will be unable to ship our products.

We and our contract manufacturers currently purchase several key components of our products, including commercial digital signal processors, from single or limited sources. Single-source and limited source manufacturing arrangements are of a nature that ordinarily accompanies the type of business we conduct. Nevertheless, depending upon the component, there may or may not be alternative sources of substitutes. We purchase these components on a purchase order basis. If we overestimate our component and finished goods requirements, we could have excess inventory, which would increase our costs. If we underestimate our requirements, we may not have an adequate supply, which could interrupt manufacturing of our products and result in delays in shipments and revenues. Additionally, if any of our contract manufacturers underestimates our requirements, they may not have an adequate supply, which could interrupt manufacturing of our products and result in delays in shipments and revenues. If any of our sole or limited source suppliers experiences capacity constraints, work stoppages or other reductions or disruptions in output, they may not be able to meet, or may choose not to meet, our delivery schedules. Moreover, we have agreed to compensate our contract manufacturers in the event of termination or cancellation of orders, discontinuance of product or excess material.

We currently do not have long-term supply contracts with our component suppliers and they are not required to supply us with products for any specified periods, in any specified quantities or at any set price, except as may be specified in a particular purchase order. In the event of a disruption or delay in supply, or inability to obtain products, we may not be able to develop an alternate source in a timely manner or at favorable prices, or at all. While we regularly monitor our inventory of supplies, a failure to find acceptable alternative sources could hurt our ability to deliver high-quality products to our customers and negatively affect our operating margins.

Reliance on our suppliers exposes us to potential supplier production difficulties, quality variations and unforeseen price increases. Our customers rely upon our ability to meet committed delivery dates, and any disruption in the supply of key components would seriously adversely affect our ability to meet these dates and could result in loss of customers, harm to our ability to attract new customers, or legal action by our customers. Defense-expedite rated orders from the U.S. federal government, which by law receive priority, can also interrupt scheduled shipments to our other customers. Additionally, any unforeseen price increases could reduce our profitability or force us to increase our prices, which could result in a loss of customers or harm our ability to attract new customers and could have a material adverse effect on our consolidated financial statements.

Our customer contracts also generally allow customers to reschedule delivery dates or cancel orders within certain time frames before shipment without penalty and outside those time frames with a penalty. Because of these and other factors, there are risks of excess or inadequate inventory that could negatively affect our expenses, revenue and earnings.

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

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

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

Our business depends upon highly skilled technical, managerial, engineering, sales, marketing and customer support personnel. Competition for these personnel is intense, especially during times of economic recovery or growth. Any failure to hire, assimilate in a timely manner and retain needed qualified personnel, particularly engineering and sales personnel, could impair our growth and make it difficult to meet key objectives, such as timely and effective product introductions.

Our future success depends upon the continued services of our executive officers who have critical industry experience and relationships that we rely on to implement our business plan. With the exception of certain key employees based in the European Union, none of our officers or key employees is bound by an employment agreement for any specific term. The loss of the services of any of our officers or key employees could delay the development and introduction of, and negatively impact our ability to sell, our products and achieve our business objectives.

We had two executive departures in the first three quarters of 2016: the departures of our Executive Vice President, Services, Product Management and Corporate Development as well as our Chief Financial Officer. We are currently searching for a permanent replacement for the Chief Financial Officer role. We had five executive departures in 2015: the departures of our

Vice President, Finance, Controller and Principal Accounting Officer; our Vice President and General Manager, Products; our Vice President and General Manager, Global Services; our Chief Information Officer; and our Vice President, Global Marketing. We had one executive departure in 2014: the departure of our Executive Vice President of Strategy and Go-to-Market. While we have since hired replacements and/or promoted certain individuals, there is always a risk of uncertainty and instability relating to our ability to find highly qualified successors for certain executive positions and to transition the duties and responsibilities of any departing key executive in an orderly manner.

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

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

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

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

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

Because our larger scale products are deployed in large, complex networks around the world, failure to establish a support infrastructure and maintain required support levels could seriously harm our business.

Our larger scale products are deployed in large and complex networks around the world. Our customers expect us to establish a support infrastructure and maintain demanding support standards to ensure that their networks maintain high levels of availability and performance. To continue to support our customers with these larger scale products, our support organization will need to provide service and support at a high level throughout the world. If we are unable to provide the expected level of support and service to our customers, we could experience:

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

A portion of our revenue is generated from sales to U.S. federal government agencies. Disruptions to, or our failure to effectively develop, manage and maintain our government customer relationships could adversely affect our ability to

generate revenue from the sales of certain of our products. Further, such government sales are subject to potential delays and cutbacks, require specific testing efforts, and impose significant compliance obligations.

A portion of our total revenue from product sales comes from contracts with U.S. federal government agencies. None of our current government contracts include long-term purchase commitments. Government sales is a relatively new line of business for us due to our acquisition of NET in August 2012 and our acquisition of PT in February 2014, and disruptions to, or our failure to effectively develop, manage and maintain our government customer relationships, could adversely affect our ability to generate revenue from the sales of our products.

A majority of NET's government sales involve products that have or will soon reach the end of their life cycles, and such government sales for these older products have declined substantially in recent periods. While governmental agencies have purchased and are evaluating some of our new products for broader deployment, this new line of business may not develop quickly, if at all, or be sufficient to offset future declines in sales of these legacy products. Spending by government customers fluctuates based on budget allocations and the timely passage of the annual federal budget.

Among the factors that could impact federal government spending and which would reduce our federal government contracting and subcontracting business are a significant decline in, or reappropriation of, spending by the federal government; changes, delays or cancellations of federal government programs or requirements; the adoption of new laws or regulations that affect companies that provide services to the federal government; federal government shutdowns or other delays in the government appropriations process; changes in the political climate, including with regard to the funding of products we provide; and general economic conditions. The loss or significant curtailment of any government contract or subcontracts, whether due to our performance or due to interruptions of or changes in governmental funding for such contracts or subcontracts, could have a material adverse effect on our business, results of operations and financial condition.

The Department of Defense ("DOD") has issued specific requirements for IP networking products for features and interoperability. In order for a vendor's product to be used to connect to the DOD network, that product must pass a series of significant tests and be certified by the Joint Interoperability Test Command ("JITC"). Certain of our products are already certified by JITC, including the Sonus SBC 5110 and the Sonus SBC 5210 session border controllers, as well as the VX900 VoIP Secure Voice Gateway. However, if we are unable to obtain JITC certification as needed, our DOD sales, and hence our revenue and results of operations, may suffer.

Consolidation in the telecommunications industry could harm our business.

The telecommunications industry has experienced consolidation, including the acquisition of Polycom, Inc. by Siris Capital Group LLC, a private equity investment firm, in September 2016, the acquisition of Aruba Networks, Inc. by HP Inc. in May 2015, the acquisition of Mavenir Systems, Inc. by Mitel Networks Corporation in April 2015, the acquisition of Riverbed Technology, Inc. by Thoma Bravo, a private equity investment firm, in April 2015, the acquisition of Dialogic Inc. by Novacap TMT IV, L.P. in 2014, the acquisitions of Acme Packet, Inc. and Tekelec by Oracle Corporation in 2013 and the pending acquisition of XO Communications, LLC by Verizon Communications, and we expect this trend to continue. Consolidation among our customers may cause delays or reductions in capital expenditure plans and/or increased competitive pricing pressures as the number of available customers declines and the relative purchasing power of customers increases in relation to suppliers. Any of these factors could adversely affect our business.

We are exposed to the credit risk of some of our customers and to credit exposures in fragile financial markets, which could result in material losses.

Due to our reliance on significant customers, we are dependent on the continued financial strength of our customers. If one or more of our significant customers experience financial difficulties, it could result in uncollectable accounts receivable and our loss of significant customers and anticipated revenue.

Most of our sales are on an open credit basis, with typical payment terms of 30 to 60 days. We monitor individual customer payment capability in granting such open credit arrangements, seeking to limit such open credit to amounts we believe our customers can pay and maintain reserves we believe are adequate to cover exposure for doubtful accounts. However, there can be no assurance that our open credit customers will pay the amounts they owe to us or that the reserves we maintain will be adequate to cover such credit exposure. Our customers' failure to pay and/or our failure to maintain sufficient reserves could have a material adverse effect on our consolidated financial statements. Additionally, in the event that turmoil in the credit markets makes it more difficult for some customers to obtain financing, those customers' ability to pay could be adversely impacted, which in turn could have a material adverse impact on our business and consolidated financial statements.

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

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

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

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

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

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

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

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

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

Even an effective internal control system, no matter how well designed, has inherent limitations - including the possibility of the circumvention or overriding of controls - and therefore, can provide only reasonable assurance with respect to financial statement preparation. The failure or circumvention of our controls, policies and procedures could impair our ability to report accurate financial results and could have a material adverse effect on our business and consolidated financial statements.

Any changes to existing accounting pronouncements or taxation rules or practices may cause adverse fluctuations in our reported results of operations or affect how we conduct our business.

A change in accounting pronouncements or taxation rules or practices can have a significant effect on our reported results and may affect our reporting of transactions completed before the change is effective. New accounting pronouncements, taxation rules and varying interpretations of accounting pronouncements or taxation rules have occurred in the past and may occur in the future. The change to existing rules, future changes, if any, or the need for us to modify a current tax position may adversely affect our reported financial results or the way we conduct our business. For example, a new revenue recognition standard was issued in 2014 that will be effective for companies in 2018, and could have a material impact on our consolidated financial statements.

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

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

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

Under generally accepted accounting principles, we review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Our intangible assets increased by approximately \$18 million in the third quarter of 2016 as a result of our recent acquisition of Taqua, \$11 million in 2015 as a result of our acquisition of the SDN Business, \$17 million in 2014 as a result of our acquisition of PT and \$17 million in 2012 as a result of our acquisition of NET. Goodwill, which increased by approximately \$1 million in 2015 as a result of our acquisition of the SDN Business, \$7 million in 2014 as a result of our acquisition of PT (net of the reduction of goodwill related to the sale of PT's Multi-Protocol Server business) and \$27 million in 2012 as a result of our acquisition of NET, is tested for impairment at least annually. Additionally, our goodwill increased by approximately \$12 million as a result of the recently completed acquisition of Taqua. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or intangible assets may not be recoverable include significant underperformance relative to plan or long-term projections, strategic changes in business strategy, significant negative industry or economic trends, significant change in circumstances relative to a large customer, significant decline in our stock price for a sustained period and decline in our market capitalization to below net book value.

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

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

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

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

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

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

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

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

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

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

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

Compliance with regulations regarding the use of conflict minerals may disrupt our operations and harm our operating results.

In August 2012, under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the Securities and Exchange Commission adopted new requirements for companies that use certain minerals and derivative metals (referred to as "conflict minerals" regardless of their actual country of origin) in their products. These metals, which include tantalum, tin, gold and tungsten, are central to the technology industry and are present in our products as component parts. As a result, we are required to investigate and disclose whether or not the conflict minerals that are used in our products originated from the Democratic Republic of the Congo or adjoining countries. There are various costs associated with these investigation and disclosure requirements, in addition to the potential costs of changes to products, processes or sources of supply as a consequence of such activities. In addition, the implementation of these rules could adversely affect the sourcing, supply and pricing of materials used in our products. Also, we may face reputational challenges if we are unable to sufficiently verify the origins for all conflict minerals used in our products through the procedures we may implement or if we are unable to replace any conflict minerals used in our products that are sourced from the Democratic Republic of the Congo or adjoining countries, as there may not be any acceptable alternative sources of the conflict minerals in question or alternative materials that have the properties we need for our products. We may also encounter challenges to satisfy those customers who require that all of the components of our products be certified as conflict-free. If we are not able to meet customer requirements, customers may choose to disqualify us as a supplier and we may have to write off inventory in the event that it cannot be sold. These changes could also have an adverse impact in our ability to manufacture and market our products.

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

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

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

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

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

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

(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:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (3)
July 1, 2016 to July 31, 2016	10,204	\$ 8.62	10,000	\$ 9,880,414
August 1, 2016 to August 31, 2016	137,287	\$ 8.72	107,500	\$ 8,944,514
September 1, 2016 to September 30, 2016	191,255	\$ 8.19	140,000	\$ 7,822,113
Total	338,746	\$ 8.42	257,500	\$ 7,822,113

(1) Upon vesting of restricted stock awards, our employees are permitted to return to us a portion of the newly vested shares to satisfy the tax withholding obligations that arise in connection with such vesting. During the third quarter of 2016, 81,246 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) Consists of shares repurchased pursuant to a stock buyback program announced on July 29, 2013 (the "2013 Buyback Program"). Under the 2013 Buyback Program our Board of Directors has authorized the repurchase of up to \$100 million of our common stock from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares repurchased will be determined by our management based on its evaluation of market conditions and other factors. We may elect to implement a 10b5-1 repurchase program, which would permit shares to be repurchased when we might otherwise be precluded from doing so under insider trading laws. The 2013 Buyback Program may be suspended or discontinued at any

time. The 2013 Buyback Program is being funded using our working capital.

(3) Represents amounts that remain available for repurchases under the 2013 Buyback Program.

Item 5. Other Information

(a) Please see the disclosure under Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview" of this Quarterly Report on Form 10-Q for the information required by Item 2.05 of Form 8-K regarding the "Taqua Restructuring Initiative" approved by the Audit Committee of our Board of Directors on October 24, 2016.

Item 6. Exhibits

Exhibit No.	Description
10.1 +	Letter Agreement between Sonus Networks, Inc. and Susan Villare, accepted on July 7, 2016 (incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K/A, filed July 8, 2016 with the SEC).
31.1 *	Certificate of Sonus Networks, Inc. Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 *	Certificate of Sonus Networks, Inc. Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 #	Certificate of Sonus Networks, Inc. Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 #	Certificate of Sonus Networks, Inc. Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

+ Management contract or compensatory plan or arrangement.

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: October 28, 2016

SONUS NETWORKS, INC.

By: /s/ Susan M. Villare

Susan M. Villare
Chief Financial Officer (Interim) (Principal Financial Officer and
Principal Accounting Officer)

EXHIBIT INDEX

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* Filed herewith.

+ Management contract or compensatory plan or arrangement.

Furnished herewith.

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Raymond P. Dolan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sonus Networks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2016

/s/ Raymond P. Dolan

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

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Susan M. Villare, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sonus Networks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2016

/s/ Susan M. Villare

Susan M. Villare
Chief Financial Officer (Interim)
(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 Sonus Networks, Inc. (the "Company") for the period ended September 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Raymond P. Dolan, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 28, 2016

/s/ Raymond P. Dolan

Raymond P. Dolan
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 Sonus Networks, Inc. (the "Company") for the period ended September 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Susan M. Villare, Chief Financial Officer (Interim) 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: October 28, 2016

/s/ Susan M. Villare

Susan M. Villare
Chief Financial Officer (Interim)
(Principal Financial Officer)