

SONUS NETWORKS FIRST QUARTER 2013 RESULTS

PREPARED REMARKS

April 30, 2013

PATTI LEAHY

Thank you and good afternoon everyone. Welcome to Sonus Networks' first quarter 2013 operating results conference call. Thank you for joining us today.

As a reminder, a recording of this call will be available on our website at sonus.net. Also, for your convenience, we will post today's prepared remarks on the Investor Relations section of our website shortly after the call. Also posted on our website is supplementary financial and operational data.

Speakers on the call today are Ray Dolan, President and Chief Executive Officer, and Moe Castonguay, Senior Vice President and Chief Financial Officer. Todd Abbott, Executive Vice President of Strategy and Go-to-Market, is also here to address questions at the end of our prepared remarks.

Please note for purposes of Safe Harbor provisions that during this call we will make projections and forward-looking statements regarding items such as future market opportunities and the company's financial outlook. Actual events or financial results may differ materially from these projections or forward-looking statements and are subject to various risks and uncertainties including, without limitation, economic conditions, market acceptance of our products and services, the timing of revenue recognition, difficulties leveraging market opportunities, the impact of restructuring activities and our ability to realize benefits from the NET acquisition. A discussion of these and other factors that may affect future results is contained in our most recent Form 10-K filed with the SEC and in today's earnings release, both of which are available on our website. While we may elect to update or revise forward-

looking statements at some point, we specifically disclaim any obligation to do so, unless required by law.

During our call we will be referring to certain GAAP and non-GAAP financial measures. A reconciliation of the non-GAAP to comparable GAAP financial measures is included in our press release issued today, as well as in the Investor Relations section of our website.

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

RAY DOLAN

Thank you, Patti, and good afternoon everyone.

Today Sonus announced solid first quarter results, which reflect a strong start to the year, and position us very well for the full year. Revenue, opex, EPS and cash were all better than our expectations and gross margins were in line with our expectations. We continue to make significant progress toward our core goal to transform Sonus to an SBC-centric, profitable company. Our results today reflect crisp execution of our strategy that is resonating with our customers and partners around the world.

Moe will review our results and outlook in a moment, but I would first like to highlight some of the progress we are making against the key operational milestones we laid out for you last quarter.

Before doing so, I would also like to mention, as previously committed to you, that we are providing new disclosures beginning today and expect to do so going forward each quarter. These are important indicators of our continued success and include: 1) Our Product revenue contribution from Enterprise customers; and 2) Our Product Revenue contribution from the Channel, also referred to as Indirect Sales. Our goal is to provide you with more transparency into the key performance

indicators underpinning our strategy. I would like to point out - and Moe will also speak to the issue of linearity in a moment - that these metrics should provide a good perspective of our strategic progress in generating revenue from the channel and enterprise segment when viewed on an annual basis.

Let me turn to the first key operational metric of SBC Growth. We delivered \$30M of total SBC revenue this quarter, which is up 77% from the first quarter of last year. We delivered \$23.5M of SBC product revenue this quarter, which is up 79% from Q1 of last year. Both SBC product and SBC total revenue mark a record quarterly high for Sonus.

The second key operational metric I will discuss is new customer growth. We secured 163 new customers in Q1, 138 of which are new SBC customers. We believe that securing new customers is an important indication that we are winning in the marketplace and our solutions are attracting an increasing number of new customers from both the Service Provider and Enterprise segments.

A third key metric for 2013 is the percent of revenue we generate from the Channel, as well as in the Enterprise segment. These are additional new disclosures I mentioned earlier. Let me first talk about the Channel: The Channel is measured by the indirect revenue as a percentage of total product revenue, which in Q1 was 17%. As we continue to scale the deployment of the Sonus Partner Select program, we expect the Channel to contribute 20-25% of our total product revenue in 2013. We believe that our first quarter results demonstrate good early progress on our channel initiative.

Enterprise customers comprised 45% of our total product revenue this quarter, or 57% of our SBC product revenue. These include a large SBC deployment with the US Federal Government. For the full year 2013, we expect the enterprise segment to contribute \$35 to \$40 million of our Total Product Revenue, or between 22% and 25%.

The last, and arguably the most important metric I will mention, is our progress toward Profitability. As we have repeatedly stated, we expect to be at least break-even to slightly positive on a non-GAAP basis for the full year, and we expect to begin generating cash from operations for the full year as well. We took a solid step in the right direction this quarter and we will continue to work hard toward this important milestone by growing revenue, expanding margins and demonstrating disciplined cost controls.

Each of these four key operational milestones have been strengthened by NET, which has now been fully integrated into our business and is proving to be highly strategic. Our SBC revenue, new customer growth, channel and enterprise revenue are all enhanced this year as a result of the complementary products and services we acquired through NET. The Sonus SBC portfolio now provides the industry's broadest end-to-end SBC solutions, delivering SIP-enabled applications for customers ranging from large, regional and branch-offices for both the enterprise and service provider segment.

I will conclude my prepared remarks in a moment. But first, I will turn it over to Moe to discuss our results and our outlook in more detail.

Moe Castonguay

Thank you, Ray, and good afternoon everyone.

Total revenue for the first quarter was \$63.3 million compared to \$75.1 million in the fourth quarter and \$64.3 million in the first quarter of 2012.

Total SBC revenue, including products and services, was \$30.0 million in the first quarter, \$26.1 million in the fourth quarter and \$17.0 million in the first quarter of 2012.

Our top five revenue customers represented 50% of revenue this quarter, up from 45% in the fourth quarter of 2012 and down from 66% in the first quarter of last year.

We reported revenue from 541 customers in the first quarter. This compares to 504 customers in the fourth quarter.

Looking at revenue geographically, domestic revenue accounted for 69% in Q1, compared to 51% in Q4 and 75% in Q1 of 2012.

Before I go into further details on our financials, I would like to point out, that the following are non-GAAP numbers that exclude stock-based compensation, write down of prepaid royalties, acquisition costs, restructuring charges, amortization of intangible assets and depreciation resulting from the write up of NET assets under purchase accounting.

Total gross margin for the first quarter was 61.0% compared to 59.0% in the fourth quarter and 65.3% in Q1 of 2012. Product gross margin for the first quarter was 64.9% compared to 61.4% in the fourth quarter and 77.9% in Q1 of last year. Product gross margins fluctuate, quarter over quarter, based on software content and product mix. Service gross margin for the first quarter was 55.4%, compared to 55.3% in Q4 and 42.4% in Q1 of last year.

Total operating expenses for the first quarter were \$44.7 million, compared to \$42 million in the fourth quarter of 2012 and \$46 million in Q1 of last year. Our non-GAAP expenses, which compare favorably to the first quarter of last year, also fully absorb costs from NET and point to greater operating leverage for the consolidated business.

Consolidated headcount at the end of the quarter, was 1,042 compared to 1,093 at the end of December, reflecting the streamlining efforts which commenced last year.

Net loss for the quarter was \$6.4 million, compared to a net profit of \$1.8 million in the fourth quarter and a net loss of \$4.2 million in Q1 2012.

We ended the quarter with total cash and investments of \$284 million which is slightly better than forecasted and a good indication that we are making progress toward our goal of generating cash from operations for the full year.

Our DSO for the quarter was 71 days, as compared to 82 days in the fourth quarter. The improved DSO in the first quarter is more in line with the expected norm moving forward.

Now I would like to provide more details for our outlook for the second quarter ending Friday, June 28 and fiscal year 2013. I will remind you that the outlook is provided in the press release and on our webpage.

The total revenue outlook for the second quarter is anticipated to be between \$66 and \$68 million. Our fiscal year 2013 revenue outlook remains unchanged and is expected to be between \$267 and \$271 million.

Included in the second quarter outlook is anticipated Total SBC revenue of \$27 to \$29 million. Our first half SBC revenue remains in line with expectations and we remain confident in our annual guidance provided on our last call and reiterated today.

The full year revenue outlook remains unchanged and includes Total SBC revenue of \$120 to \$124 million, reflecting year over year growth of approximately 40%.

I'd like to pause here for a moment to discuss the matter of SBC linearity and help you with your modeling this year.

In 2012 we realized approximately 40% of our SBC product revenue in the first half of the year and 60% in the second half. This year, based on the midpoint of our

guidance, we expect to realize approximately 46% of our SBC product revenue in the first half and 54% in the second half. With regards to the second half of the year, we continue to expect the fourth quarter to be our strongest quarter, representing approximately 30% of our SBC product revenue, as was the case in the fourth quarter of 2012.

Turning to our legacy product revenue outlook: While we believe there could be upside to our outlook, we maintain our assumption for an annual decline of 30% in our Media Gateway product revenue which implies roughly \$60 million of legacy product revenue in 2013.

Turning to gross margins: For the second quarter, we expect total non-GAAP gross margins to range between 62 to 63%. For the full year we continue to expect non-GAAP gross margins of between 64 to 65%, reflecting continued streamlining of manufacturing and service operations and lower component and subassembly costs.

For the second quarter we expect non-GAAP operating expenses to be between \$42.5 and \$43.5 million. Total non-GAAP operating expense outlook for fiscal year 2013 remains in the range of \$171 to 172 million.

For the second quarter, we expect a non-GAAP loss per share of \$0.01 to break-even and for the full year we continue to expect non-GAAP earnings per diluted share of break-even to \$0.01.

Basic share count for the second quarter is anticipated to be approximately 282 million. Full year diluted shares are expected to be approximately 285 million.

We expect to be cash flow positive from operations in 2013, with second quarter ending cash and investments of \$282 to \$285 million. We expect year-end cash and investments of \$283 to \$287 million.

With that said, I will now turn the call back to Ray to provide his concluding remarks.

Ray Dolan

We believe the proof of our transformation toward a profitable, SBC-centric company is becoming increasingly clear. This quarter 62% of our total product revenue was derived from SBC solutions. This is a record high for Sonus. We are pleased that our most important drivers of value, including SBC revenue growth, new customer growth, revenue growth from the channel and enterprise and progress toward improved profitability are all tracking consistent with our expectations.

Turning to profitability, I want to make it clear that our crisp focus on profitability is not limiting our growth potential. We believe we are already uniquely competitive with the industry's most comprehensive SBC portfolio and I am confident that the continued investments we are making will ensure that we are increasingly relevant and strategic to our customers and partners.

Infonetics expects the total SBC market to grow in the mid-teens in 2013. We continue to expect to grow our SBC product revenue by approximately 50% this year, implying continued share gains. In short, Sonus is playing an important leadership role in the evolution of our industry and I am thrilled to be a part of this journey. I would like to thank our team for their continued hard work and for the continued support from our shareholders. With that, I will now turn the call over for questions.