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Sonus Networks, Inc. (SONS)

Q4 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Fourth Quarter 2016 Conference Call. During the presentation, all participants will be in a listen-only mode. Afterwards, we will conduct a question-and-answer session. [Operator Instructions] As a reminder, this conference is being recorded Wednesday, February 15, 2017.

I would now like to turn the conference over to Susan Villare. Please go ahead.

Susan M. Villare
Chief Financial Officer (Interim), Sonus Networks, Inc.

Thank you, and good morning. Welcome to Sonus Networks' fourth quarter and full year 2016 financial results conference call. Today's press release and supplementary data have been posted to our IR website at sonus.net and submitted to the SEC. A recording of this call and the transcript will be available on our IR website shortly after the call. During our prepared remarks, we will be referring to a presentation with supporting information. Please take a moment to locate these documents on our IR website.

As shown on slide two, please note that during this call, we will be making forward-looking statements regarding items such as business strategy, future market opportunities and the company's financial outlook. Actual events or financial results may differ materially from these forward-looking statements and are subject to various risks and uncertainties including, without limitation, economic conditions, market acceptance of our products and services, the timing of customer purchasing decisions, and revenue recognition, difficulties leveraging market opportunities and integrating acquired businesses and lastly, the impact of cost containment efforts.

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

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

With that, let me turn it over to the President and Chief Executive Officer of Sonus, Ray Dolan.

Raymond P. Dolan

President, Chief Executive Officer & Director, Sonus Networks, Inc.

Good morning and welcome to everyone on the call today. I'm pleased to report that Q4 was another solid quarter for Sonus with results in line with the guidance we've provided in October. For the full year 2016, we posted another year of solid progress, highlighted by some major customer wins, continued margin progress and expense controls, another strategic acquisition and approximately $19 million of cash flow from operations.

While we delivered these results in 2016, we also maintained our significant technology investment to ensure that we lead the industry's transition to a cloud architecture.

In 2016, we spent approximately 27% of our revenue on R&D on a non-GAAP basis. This R&D focus has been a consistent theme for Sonus since I joined in 2010. Our multi-year commitment to R&D is paying off, my recent discussions with senior executives at service providers, enterprises, cloud providers and technology partners confirm that we are focused on the critical technologies that can lead to a more affordable, more secure internet. Not just for voice but for all flows. It's a very big strategy and I'll talk more about it shortly.

I'll offer a few comments up front regarding our financial performance as well as our outlook for 2017. Susan will provide further financial details.

2016 revenue was up slightly compared to last year. Non-GAAP EPS was $0.33, which equates to 7.2% of non-GAAP operating income. This ranks amongst the highest annual financial performance over the past six years since I've been the CEO of Sonus. Our gross margin progress provided us with the opportunity to keep investing while improving our profitability.

Looking forward, my best judgment currently calls for another year of flat to low-single digit revenue growth for 2017. I also want to clarify right up front that we currently expect the linearity of our 2017 revenue to be even more second half weighted than prior years. You might ask, how can I be comfortable with our annual framework without having certainty on the timing of some of our first-half deals? My confidence is rooted in the fact that we entered 2017 with approximately $8 million of higher revenue backlog compared to last year.

So coming off 2016 annual revenue of $252 million of revenue, 2017 revenue target of flat to low-single digit growth appears achievable. Additionally, our average book-to-bill for the past eight quarters has been modestly above 1.0. Together with the quality of our bookings funnel, this forms the basis of our revenue outlook for 2017.

Now, let me explain our linearity. My main concern about forecasting quarterly linearity is that consolidation continues across our sectors for both customers and suppliers, making the timing of some projects difficult to forecast.

We've also heard in our discussion with customers that they expect to push spending into the second half. This is generally consistent with the recent earnings calls from our customers and some competitors and therefore I think it's prudent for us to plan accordingly. Given all that, I expect our first half total revenue to be approximately $105 million, with the first quarter being approximately $52 million. To the extent things change between Q1 and Q2, the first half should still be in that general range.

The second half is shaping up far stronger than our first half outlook. In particular, the strategic project we're now doing to replace the incumbent of one of the largest U.S. mobile operators is scheduled to revenue in the second half subject to achieving certain milestones that are currently on track.

Regarding our profitability, you can generally presume that we have a breakeven revenue level of approximately $61 million at current gross margins, and so we're likely not be profitable in the first half of 2017.

In fact, it's likely that we'll report non-GAAP EPS of $0.14 loss in Q1. Our second half profitability is projected to be much greater as revenue levels are expected to be significantly above breakeven levels. We currently expect our full year non-GAAP EPS to be approximately $0.26. The projected decrease in profitability year-over-year is primarily due to the increase in investment related to our new security architecture.

I would like to now shift to a strategy discussion. Okay, I'm going to take a few minutes to share with you why the moves we've made both our prior acquisitions and the consistently higher R&D annual investments have started to bear fruit. And yes, today I can say that these bets are starting to pay off.

One thing we can all agree on is that the network technology business is characterized by disruption and innovation. 20 years ago networking was valued in a way that led to one of the greatest bubbles in history. All you had to do was announce that you plan to string fiber on a high-tension wire, along an electric right-of-way and you create billions of dollars' worth of equity value before you generated a single dollar of revenue.

Then, of course, came the telecom crash. In the middle of the last decade, along came the cloud, and Amazon moved both compute and storage off-prem. Now, in a similar disruptive fashion, networking is being virtualized and moved to the cloud. As with the data center, it appears that cloud has overwhelmed nearly all options to create value in the network. So, today, smart money says networking is dead. The logic is that SaaS and social have all the value since they drive either enterprise workloads or advertising. The only thing valuable left in the network domain is security, and yet, the entire global digital economy runs on communications.

We believe something is missing in this assessment. How can networks be free, but the SaaS complex that rides on that very network be worth more than $1 trillion? How can networks be free, but the technology securing networks after the fact creates a $110 billion market today, growing to almost $200 billion in the next five years? But incredibly, that's the outlook. Well, interestingly, industry leaders that I've worked with already realize several trends will cause this logic to dissolve very quickly into a new architecture, thereby returning significant value to the network. SDN is the driving force that will create what is now being called the third network. It has the potential to be massively disruptive and it's very exciting.

To share some context on how massive disruption happens, I'll borrow from my own experience as the CEO of Flarion. Some of you may know what we did at Flarion. The simplest thing to point to is the LTE connection on your phone or tablet. In a nutshell, the mobile Internet capability was created by Flarion and commercialized by QUALCOMM on their ecosystem. And if you've recently traveled and found yourself in a poor coverage area and you've used 3G CDMA connection to surf the web, that frustration you experienced is the old architecture that everyone thought would be the only way the mobile Internet would work.

My experience, as the CEO of Flarion, helped me to form a passion for disruptive technologies and building the next generation and an instinct to stay the course even when others may not see it during the early phases. Massive disruption takes time. It rarely finds agreement among industry players. And, ironically, it often appears to happen overnight when it finally takes root. So now let's bring this forward to Sonus and what we are seeing today, what long-term evolution are we now building. Simply put, we believe that our foundation of securing communications can now be applied more broadly to create a new approach to secure the entire Internet. This is certainly not something we can do alone, nor is it something that will happen overnight. But the good news is that we have built the foundation of this strategy over the past six years.

When I joined Sonus in October 2010, we were a VoIP gateway company. Our flagship product was the GSX 9000. It was and it still is a fantastic platform that was embedded in many large service providers around the world in the core of their voice networks. While voice gradually become passé after the telecom bubble burst, consider that the install base of these gateways is well in excess of $1 billion. Customers loved this gateway. They still do. Our first SBC initiative was to evolve this gateway into a hybrid solution, the SBC 9000. It made perfect sense and it provided investment protection to our existing customers, while we began to build pure-play SBCs.

When we launched the SBC 5000 in 2011 and then purchased NET in 2012, we moved from the core to the edge and into the enterprise. We inherited a great relationship with Microsoft from NET within their Lync architecture. And we gained important deployments with the federal government, including three branches of the military. In 2015, we launched SBC 7000, establishing clear market leadership in the high density portion of the networks. We also embarked on an effort to virtualize the SBC for SDN/NFV.

Having the foresight to converge to a common code base across all virtual and hardware-based SBCs gave us a huge advantage in the virtual SBC market, something that is bearing fruit today. This actually led to the win that I mentioned earlier with a major North American Tier 1 service provider for their VoLTE interconnect. That project is based completely on our virtual SBCs. I can't emphasize enough the importance of the feedback from this customer that gives us confidence that other customers will soon recognize the value of our virtualized architecture.

But we didn't stop at virtualizing our SBC. We virtualized everything else that supported our SBC, including the signaling solutions that we purchased in 2014 from Performance Technologies. We did this to prepare for a full cloud-based architecture, including adding product automation, elasticity and integration with the leading cloud infrastructure providers. As we enter 2017, we can claim that our full product portfolio is not only virtualized, but cloud ready.

And there's more. We evolved one of our core assets, transcoding, from DSP-based to CPU-based. And, recently, we've made the transition to GPU-based architecture. We will bring this GPU technology to market this year. This investment enables Sonus to leverage state-of-the-art technology in the data center and run the SBC application with cloud, scale and efficiency unmatched in the industry. Why does this matter? Because we believe that transcoding will be the linchpin of the new Internet security architectures.

As I just mentioned, we're making significant progress in mobile, with the large VoLTE win that should go live commercial in the second half of 2017. We've continued to strengthen our position in mobile and we've leveraged our position in the network in close collaboration with other Tier 1 service providers. As a result of this collaboration, we saw an opportunity to play a larger role with Taqua. So we purchased Taqua late last year and we recently won Tier 1 voice over WiFi deals in Latin America and South Africa. Again, the theme is that our strategy is bearing fruit. We can now leverage some trends in VoLTE and voice over WiFi that could open access to the evolving IMS market. These business opportunities have potential to pull in signaling as well as SBC.

But more than just momentum in the mobility space, where does this broader strategy lead us? Increasingly, partners and service providers are seeing the value of how we are approaching voice security, with hyper-scaled architectures that can be applied to other Internet traffic flows. And this brings me to one of my most important points. Gateways and SBCs are fundamentally firewalls, enforcing security at network edges, albeit for voice. They are real-time firewalls, and they are already in the flow with an end-to-end perspective, which is where the world is going. They will play a critical role as they evolve, collaborating with next generation firewalls and leveraging the strength of each other. The feedback I've received from customers and partners so far has been terrific.

So our strategy is bearing fruit, and just as I saw the disruptive move to mobile internet years ago at Flarion, I believe that Sonus is in an ideal position to capture significant value as the internet security moves into the service layer and service providers marketing secure networking as a service becomes the next big transition. Our customers are counting on us to collaborate with them and their partners to help them move to virtualization and cloud. In their war room in Texas, one senior executive recently said to our joint team as we kicked off a major project, quote, failure is not an option. I couldn't be more excited about the opportunity in the massive disruption ahead.

At this point, I'll hand it back to Susan to discuss more details around our Q4 performance and our outlook.

Susan M. Villare

Chief Financial Officer (Interim), Sonus Networks, Inc.

Thank you, Ray. As a reminder, gross margin, operating expense, operating income, net income and loss per share are all discussed on a non-GAAP basis and have been reconciled to you at the end of today's press release and in the presentation. The slides in our IR portal have lots of detail regarding our historical financial performance, and we utilized a reporting framework consistent with what we have presented in prior periods. We encourage you to get these materials from our IR website.

Let's now move to slide three and take a closer look at our fourth quarter 2016 non-GAAP consolidated financial results. Total revenue was $67.6 million, which was in line with our guidance. Non-GAAP gross margin was 70%, which was significantly above our guidance. Our non-GAAP operating expenses were $42.4 million, which was also better than our guidance, and was a result of continued cost-containment efforts. Our strong revenue mix coupled with lower operating expenses, generated a solid non-GAAP diluted earnings per share of $0.09. This was very favorable as compared to our guidance of $0.04 to $0.07.

I'd now like to turn to slide four to provide a little color on the impact of the Taqua acquisition on our consolidated financial results for fiscal 2016. Total Taqua revenue from the acquisition close date, which was September 26, through fiscal year end was $1.8 million. Non-GAAP loss per share over that same period was a loss of $0.06. Taqua restructuring activities are still in process, and we anticipate their full completion by the end of the first half of 2017.

I'd like to now move to slide five, which is our condensed balance sheet. Cash and investments were $126.1 million at fiscal year-end 2016 as compared to $121 million in Q3 2016. The $5.1 million of sequential increase in cash was primarily due to $9.1 million of cash being generated from operating activities. We generated $19.2 million of positive cash flow from operations in fiscal 2016. It is important to point out that 48% of our total annual cash flow from operations was generated in our fourth quarter. We typically generate the majority of our profitability and our positive cash flow in the second half of the year based upon our revenue linearity. We do expect a similar trend to continue in 2017. In Q4 2016, we repurchased $2.4 million of stock under a stock buyback program. At December 31, 2016, we had $5.4 million that remained available under our previously approved stock buyback program.

Days sales outstanding was 74 days in the fourth quarter of 2016. This was higher than historical levels, but it was due to a very strong book-to-bill ratio this past quarter. I'm very pleased to announce that Q4 2016 was the company's highest bookings quarter looking back over the last 12 quarters. We anticipate DSOs will return to more normalized levels in 2017 and be approximately 60 to 65 days.

I'd now like to turn to slide six, which is our non-GAAP condensed statement of operations for 2016 as compared to 2015. First, I'd like to highlight that Q4 2016 marks the sixth consecutive quarter of non-GAAP profitability for Sonus. Staying on slide six, I would also like to highlight some of the full-year 2016 financial figures. As Ray mentioned, total revenues increased modestly by 1.4%, and was $252.6 million in 2016 as compared to $249 million last year. Non-GAAP gross margins increased nicely and were 160 basis points higher than last year, at 69.4% in fiscal 2016.

Our cost containment efforts led to a full-year operating expenses of $157.2 million in 2016. This was more than an $11 million decrease as compared to 2015. Non-GAAP operating income as a percentage of total revenue was 7.2% in 2016 as compared to 0.2% in 2015. Non-GAAP diluted earnings per share was $0.33 in 2016, as compared to a non-GAAP net loss of negative $0.02 in 2015.

Let's turn to slide seven, and I will briefly highlight a few of our key steps. We had one 10% customer in the fourth quarter of 2016, which was CenturyLink. We had one 10% customer for both fiscal years, and it was AT&T. Revenue from our top five customers represented 39% of total revenues in our fourth quarter of 2016. This compares to 33% in Q4 2015. Product revenue from enterprise was consistent at 19% for both fiscal 2016 and 2015. Our flagship Sonus SBC 7000, and Sonus SBC 5000 both performed very well, and product revenue from these products grew approximately 9% in fiscal 2016 compared to the prior year.

Ray provided significant color on our outlook for 2017, which I would like to recap and then I'll open up the call for questions. Please turn to slide eight, which summarizes our forward-looking outlook for 2017. As Ray previously mentioned, we see another year of flat to low-single digit revenue growth for 2017 as compared to last year. Additionally, we expect our first half revenue to be approximately $105 million, with approximately $52 million in our first quarter. Assuming a $52 million revenue figure in the first quarter of 2017, this would generate a non-GAAP loss per share of approximately $0.14. We are comfortable with the FY 2017 analyst estimates for non-GAAP fully diluted earnings per share of approximately $0.26.

Sonus will continue to invest in newer technologies to drive top-line growth while looking to reduce spending on older technologies as we balance our short and long-term profitability goals. We will provide further color and transparency on our outlook as the year progresses.

That concludes our formal remarks. I would like to now turn the call over to the operator for questions. Operator, we are ready for our first question.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question is coming from the line of Jess Lubert with Wells Fargo Securities. Please go ahead.

Jess Lubert
Analyst, Wells Fargo Securities LLC

Q

Guys, thanks for taking the question. A couple of questions, but maybe just first on the outlook, it seems like assuming you hit your first half numbers you'd need to see fairly strong double digit sequential growth in the back half of the year to get to flat from a revenue perspective in 2017. So, I guess, I was just hoping to understand how much of your second half optimism is dependent on the one large competitive replacement win, and what needs to happen for this deal to get to revenue recognition, and how much visibility do you have that this deal is likely to close in the second half versus potentially pushing out to 2018? That's my first one.

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Hey, Jess. It's Ray. And I'll be happy to answer that first one, and we'll anticipate more. So on the outlook, we tried to be as transparent as we can on linearity. The outlook on the second half – you're welcome to do the math year-over-year, but I built it from the bottoms up, and the math ends up being what it is.

You can do the same math last year, and say we had huge first half year-over-year, but it was because the prior year was so weak. So we're just trying to line up the deals as they fall. We've got good visibility into the second half. I tried to lay out the book-to-bill ratios that we've been experiencing, the backlog that we've been experiencing and so I feel comfortable with this framework, completely.

Second, with regard to the specific large deal, as I said, it is a double digit million dollar deal. We have very good visibility. I'm personally the executive sponsor, we have some very senior execs there. It's been underway for multiple years already. It's very much on track. In fact we're ahead of schedule. I feel comfortable saying that the folks on the other side of the table are thrilled.

In fact, it's begun to generate discussion about going further beyond where we are on the interconnect side of the business into a broader multi-footprint. So not only that, it's having kind of a watershed effect around the industry because people talk. And folks now know that the brand of Sonus is associated with multi – with some of the largest and most strenuous network focused players in the world.

So with regard to just frankly the model, I'm very comfortable that it'll score in the second half. If anything falls off track we'll be transparent about that, but I don't expect it at all. In fact, I'd say we're ahead of the initial schedules. There are FOA's that need to score based on the contract in order for it to be rev-wrecked.

And if any of those do get delayed, we'll be transparent about it, but I don't expect that. The more strategic implications is this is opening up a very wide aperture for us going into Mobile World Congress for us to be a full-fledged mobile player. So that's what I'm really excited about.

Jess Lubert
Analyst, Wells Fargo Securities LLC

Q

Are there similar competitive replacement deals out there, like the big one you've mentioned that you're engaged in right now that you think have a chance to fall into the year that aren't in the numbers? Or is it too early to say at this point in time?

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

I don't think anything that's large has a chance to fall into 2017. This is a multiyear project. If we are successful in broadening this beyond this large brand, it's probably influencing some of the other Tier 1s that we're building on voice-over-WiFi, because it'll bridge into VoLTE. I tried to articulate that. It's a very large brand in Latin America, specifically in Mexico, and a very large brand in South Africa.

This is changing the entire tone of our discussion. One, the entire acquisition of our prior competitor has left them basically ignored inside of a large corporation that has strategic conflict with some of these search providers. And second, our continued focus on R&D and the fact that we've not only virtualized, but cloudified everything is giving these service providers an opportunity to fight back.

Many people think that they're dead because everybody is going to ride over the top of them, and the security complex is going to drain the blood out of the carcass that's left in the network. We are coming back to them with an opportunity through SDN, and our voice heritage is a natural extension for us to own VoLTE going forward.

It's just taken us a while. Remember, this is a company that got stuck in the core of voice fixed networks. It's taken us a while to get to the edge and to build the access features out. It's taken us a while to build a common platform to virtualize from one session to infinite sessions in every hypervisor environment. And now with the way we decompose, there are a lot of other players that may, hey, I'm going to decompose and throw some stuff into open source. I mean, the way they decompose is like the equivalent of taking the lid off a jar of pickle. Anybody could decompose by separating signaling in the media plane. We did it very thoughtfully and discreetly for years, and now people trust us, that for the same reason we got designed into all the large voice networks at the turn of the century, we will be at some point designed into all of the large converged SDN plays. And those are going to be cloud plays. We have bridged into detailed cloud discussions with all of the hyperscale players, as well as just the basic Layer 2, interconnect, meet in the mall kind of stuff that's out there.

So this is a very exciting time for us, but frankly, in 2017, it is what it is. We're not linear. We're profitable. We'll generate cash. We'll be transparent, and this big brand is probably going to have an outweighed impact on our second half, but I don't believe that's a risk at the time.

Jess Lubert
Analyst, Wells Fargo Securities LLC

Q

And then it looks like while revenue from the 5000 and 7000 platforms rose for the full year, it actually declined sequentially in year-over-year during the fourth quarter, and actually had one of the lowest revenue quarters since Q3 of last year. So is it fair to assume, as some of these big deals in the back half start to unfold that we should expect revenue from the 5000 and 7000 to also be accelerating, or is there more of a transition towards software to where the revenue mix is changing? And maybe it's more about virtual taking a bigger part of the revenue and hardware maybe playing less of a role going forward? How should we think about that as we move into the second half of the year?

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

I'll give you my current thinking, Jess, but I do believe I'll be more informed by midyear to tell you that, because this large project is virtualized. More and more companies for years have wanted to go to virtualized, but they've needed other parts of the ecosystem to get there, and we've needed to get all of our surrounding elements there. So I would be pleased with either outcome. If people want to go back and do things in the 5000, 7000 for the next ten years, our margins on those products at half full are awesome, and at full density are incredibly awesome. But as they evolve towards a software architecture, I actually think not only will our revenues and margins be roughly the same, but it will drive us into owning a cloud architecture.

And once we get baked into their fundamental cloud architectures that are distributed from like a white box virtual CPE architecture of the edge, whether that's on-premise or not, then it moves to a hosted model, and then it moves to distributed across the cloud and the data center. I'll take that all day long. I mean, we're doing some very exciting things in length, for example. I know a lot of folks make hay about the CCE announcements. We announced Cloud Connect in the second half of last year, we've got a very strategic relationship with Microsoft. We've been investing in that for years since we bought NET. But the on-prem solution is just never going to have the cost structure associated with a hosted environment. And I think Microsoft and other players are starting to realize that, and when you do move into that hosted environment, whether it's a multi-tenant or a multi-instance virtualized architecture, we scale incredibly well, and we distribute across the cloud architecture because we grew up in this space. We didn't come out of a compute application platform and try to figure out how to do communications.

So those are the things that I'm really excited about. So if folks start to model the 5000, 7000 up and it ends up being in virtualized, I think, it'll be basically the same revenue, basically the same margin, and even more strategic value. And if not, we'll just report out probably better numbers on 5000, 7000. But the fourth quarter year-over-year is just a matter of it having been particularly strong last year fourth quarter, and not as big of an impact in this fourth quarter. I don't consider it a major data point yet.

Jess Lubert
Analyst, Wells Fargo Securities LLC Q

Thanks, guys.

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc. A

Thank you, Jess.

Operator: Thank you. Our next question comes from the line of Paul Silverstein with Cowen. Please go ahead.

Paul Silverstein
Analyst, Cowen & Co. LLC Q

Hey, good morning. Thanks for taking my questions. A couple of questions, if I may. First off, Ray, the deals you referenced with Taqua down in Mexico, the other deal in South Africa, can you give us a sense for how large those deals are in trying to project out further beyond that? And then I've got a margin question.

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc. A

Yeah, Paul. Sure. Thanks for the question. You can think of them as in the ballpark of $1 million, starter deals. They could scale very quickly from there because most of these companies are multinational pan-American kind of companies, and pan-Africa kind of companies. So I'd say material, software centric, and could become a beachhead, but at the same time, if all it is is a beachhead, it'll be a one and done. I don't believe that's the case, but I just want to be transparent with you.

Paul Silverstein
Analyst, Cowen & Co. LLC

Q

I appreciate that. And then on margins, do you all have visibility as to what peak gross margins – how much better they can get? You all did a nice job, but how much more room is there? And then I want to ask a larger question.

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Sure. The gross margin progress we've made from, say, mid-50%s to 70% has been strenuous. You could say the early days were low-hanging fruit, the later days were just a lot of hard work. Where can they go from here? It probably has another 500 basis points to run as we evolve this software. I'm just giving you a ballpark. That certainly would be my own internal goal over a multiyear period.

But things that make that challenging are if our revenue levels stay sub $60 million. Our manufacturing volumes, and things like that, and overhead costs are just going to make that difficult. Once we start getting into the $75 million plus quarters, which we tend to have in the second half, obviously it's a little bumpy, but I'm just using two general numbers. It'll be easier for us to climb into the 70%s. As attaches for licenses from prior chassis and as more things are sold virtualized, I don't see any reason we can't get there. I'd be reluctant to claim getting beyond that, towards 80%, Paul, because I just don't think too many industries exist at more than 75% gross margins.

Paul Silverstein
Analyst, Cowen & Co. LLC

Q

Okay. And then bigger picture, Ray, relative to your strategic vision – and I appreciate that you're not expecting the revenue dispute, but in terms of where the company is in realizing this transformation that you discussed this morning, is it even at the RFP stage, or is it even earlier than that in terms of your conversations? Can you give us some sense on where the market is at? Are you seeing an increasing volume of significant RFPs or, again, is it even earlier than that?

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

So I am personally now, Paul, in strategic discussions with far more senior executives. I would call it the top of the house, certainly from technology point of view. In some cases, it goes beyond that, all the way to CEO levels. The industry has been consolidating. They're almost running out of consolidation opportunity for the leverage of synergies and they need to move into cloud.

And there's this great debate. I would say most people believe they're not going to make it. I don't know if folks on this call would agree, but there's a tremendous amount of skepticism that in the presence of Amazon, everyone doesn't just die. And yet I will tell you that players like Amazon, who I meet with at very senior levels, realize that they need to move from a stateless to a stateful cloud. And if they don't move to stateful, what they'll do is they will at least move to a more open architecture that – in an SDN world you could almost argue whether state matters because there's no network until it's requested. Once it's requested, it's managed for as long as it's up and then it's torn down.

So this third network notion, which is actually a term commonly used by most folks, it's growing up in the MEF if you haven't heard much about it. I actually believe it's imminent. But remember, I said in my prepared comments, often it is like you don't see it, you don't see it, and then it happened overnight. Think when the iPhone came out. Prior to that, people were thinking the Razr was an end game. Okay. It just didn't make sense that someone was going to have the balls to mobilize the entire Internet and someone did.

What I'm saying to you is the security complex right now is putting an increasing tax on the network. It's going from $100 billion to $200 billion in virtually three years with the notion of going to like $500 billion. And everybody is giddy about the remaining investment thesis, about security. I believe that's a broken thesis. The security layer is going to move back into the flow of the network. And, ironically, these are the discussions that I'm having with CTOs of some of the largest corporations in the world, is we're going to go back to a virtual circuit switch control plane on top of a massive Layer 3 and below commodity Internet.

Now, why do I like that? We were born above the IP layer. We don't need to escape being commoditized. We started above Layer 3 and we started in the application of voice. And the only question people have is, does it matter that you do voice? Right, because most people think of the world very simply. The volume of traffic is 99.9% not voice. Why do you matter? And my response is, because the control plane for voice will become the control plane for the entire Internet as the Internet evolves. And if it doesn't, we're going to collapse under the burden of the security tax that's being put on with next gen firewalls needing to form a perimeter in frankly a world that doesn't have a perimeter. The cloud has no perimeter. It's all flows.

Now, all the big hyperscale guys get that, all the big service providers get that, and frankly, none of the current suppliers want to talk about that, because they're having a field day on that tax. Does that respond to your question, Paul? I mean, I don't have a timeframe that I'm going to tell you that the linchpin is going to fall, but I'm telling you that our multiyear investment is now becoming intuitive to the most senior folks at these large companies, saying, this is exactly what we need to do.

Operator: Thank you. Our next question -

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.
A

Do you have a follow-on? Okay, Paul, did you have a follow-on question or was that it? I didn't know if you had any more. Okay.

Paul Silverstein
Analyst, Cowen & Co. LLC
Q

Ray, sorry, I've muted myself. To be fair to others, I'll pass it on. I'll take the rest offline. Thank you.

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.
A

Okay. Talk to you soon. Operator, next question.

Operator: Thank you. Our next question comes from the line of Greg Mesniaeff with Drexel Hamilton. Please go ahead.

Greg Mesniaeff
Analyst, Drexel Hamilton LLC
Q

Yeah. Hi, Ray. Question on some of your commentary regarding the transition to a virtualized environment and SDN. As that continues to evolve, how do you envision your sales and marketing strategy changing with that trend? I mean, do you see yourself increasingly dependent on partnerships with the major, large – I guess, what used to be called equipment vendors? Or do you see a more go it alone direct sales strategy to provide your products in a more discrete à la carte kind of way? Thanks.

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Sure, Greg. So in a hardware instance where we're at right now, 5000, 7000, and to a certain extent, some folks just keep loving the heck out of our 9000 SBC, we are largely independent. Most of those applications can be run independently, especially the interconnect side and the peering side. So we're fine. In the VoLTE environment that we're in with this large customer and the ones that I think will be derived off of that, we're largely independent of other players. We were in a bake-off for a year versus all of the major players. We won that bake-off. There was a secondary bake-off that added another nine months.

Actually, that's what's probably going to keep us on track, because so much work was done there that we'll be fine. And that's not going to be a dependency, even though, to be honest with you, that's all purely virtualized software. So I don't think it really changes our dependency one way or another. We could become an application on a next gen firewall and shift our distribution into the enterprise as, if you will, a skew on somebody else's as a service model. That would work.

We're also in advanced stages in the Domain 2.0 program on the virtual CPE side, where we could easily be a client in a white box if in fact it stays on-prem or moves into a multi-tenant hosted model. We're doing a ton of work there. In fact, our small 1000, 2000 that led to the low instance, low density, virtualized SBC, we've actually done a ton of work there. We now launched a product called SWe Lite, which is the software edition lite. And actually, we didn't lighten up the session density, we just lightened up the memory requirements and the power requirements and the footprint so that it would fit in a very, very inexpensive edge device if the telcos wanted to put that on-prem in their strategy.

And the same thing for Lync. That may or may not be their strategy. If it is, we'll be part of somebody else's distribution. In that case, it'd probably be the telco. So we'll just see where it goes, but we've got the agility to go either way. Certainly, we're not going to go over the top of the telco and sell direct to the enterprise. We do that for large banks that have like a one-year sales cycle to figure out how it impacts their entire IT architecture. But even after that year, we stand back and get behind one of the large telcos as a system integrator.

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Greg...

Greg Mesniaeff
Analyst, Drexel Hamilton LLC

Q

Enterprise...

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Go ahead, Greg.

Greg Mesniaeff
Analyst, Drexel Hamilton LLC

Q

I'm sorry, I'm sorry. You guys indicated earlier on the call that enterprise revenues were less than 20%, I think you said 19% of total. Do you kind of see that number being steady going forward?

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Yes, it's been fairly steady, and I would call anything from 18% to 22% steady, Greg, because as our revenue has volatility in it, you get 100 basis points of shift just based on the numerator and the denominator. Our enterprise business is steady. We are starting to see some good uptake in the Skype for Business Lync environment, as I said, because Microsoft is now getting, I think, more focused on what they call CCE, or Cloud Connected Edition.

When you think of their use of the word edition, it's kind of like they think of an enterprise edition for the old Windows environment. That discussion is changing very rapidly towards a hosted model. I think that's end game for all of the major players in the cloud, is to move into a hosted model. And when we do, whether we call that enterprise or we call that cloud as a new category, it'll be mostly for players like Microsoft, and probably in partnership with some of the telcos, and maybe even partnership with a company in the cloud like an Equinix, who services the telcos in hundreds of data centers around the world.

This is going to be a very collaborative effort. And we'll just share with you where we are, and if we change categories from enterprise search provider to cloud sometime next year, we'll be transparent about that as well. But we're just going to follow the puck, and I think we'll actually be very strategic to some of those players as they evolve their strategy. Everything is moving up the stack. People that used to interconnect at Layer 2 realized they're going to be left behind if they don't move up.

Everything is about API-based communications, not just in the cloud, but even in telcos. And we've made some very major progress there. There'll be some announcements forthcoming about us having some brands around API based communication. We've launched two brands recently that we're launching discretely but we'll make more noise about it in the next few months. One is called [ph] Vigil (00:45:31), which is basically a network platform which has massive analytics engine attached to it, and the other is called [ph] TRAPiEaze (00:45:36), with the middle letter being an I because it's an API-oriented architecture. And we're going to start to use the term digital services broker when we move up the stack.

I mean, think about it: even though people think of us as voice and SIP, SIP is an API. Everything we have done at Sonus since the day we were born has been API-based and above Layer 3. So as the world moves to API-based communication, which is what every hyperscale player wants to talk about, and they believe the last remaining network element that gets in the way of hyper-elasticity is the firewall, and yet they have to address security. I really like our odds of being able to contribute to that meal, if you will, as it revolves.

Greg Mesniaeff
Analyst, Drexel Hamilton LLC

Q

Thanks, Ray.

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Thank you, Greg.

Operator: Thank you. Our next question comes from the line of Mike Latimore with Northland Capital Markets. Please go ahead.

Mike J. Latimore
Analyst, Northland Capital Markets

Q

Hi, great. Thanks a lot. On this new Tier 1 wireless win, just specifically which products are you going to be selling into that project?

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

You think of it as our virtualized large SBC. It's a massive scale, Mike. It's focused now on the interconnect side of VoLTE, which is a massive opportunity, and as other players around the world move more to VoLTE, and they're starting to do that, that's where we're at. There's a very good shot that we'll move beyond interconnect. I just don't want to overhang the market with that opportunity yet. But as we move beyond interconnect into access and transform, if you will, the way mobile networks work. Again, we'll say more about this at Mobile World Congress, but there is a huge opportunity for us.

Where we sit in the core of a VoLTE network from an SBC point of view, a lot of traffic gets rejected in the depths of the virtual mobile core and the IMS architecture, which could easily have been done at the edge, if there was a way for that SBC that blocks traffic to collaborate with the network element at the edge. So expect that we'll be re-architecturing more of the mobile network architecture, and we may be able to show off either ourselves or in collaboration with another player in the industry to talk about how we can re-architect that.

Mike J. Latimore
Analyst, Northland Capital Markets

Q

Got it, yeah. I mean, so you're replacing an incumbent. I assume you're replacing kind of the traditional hardware based SBC there?

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Correct.

Mike J. Latimore
Analyst, Northland Capital Markets

Q

Okay. And did Taqua help here at all? And also, are you selling any of your diameter products there?

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Taqua didn't help at all. This has been going on for two years. Taqua was acquired, we started to do more business with Taqua in the summer last year, which lead to the acquisition. No, this is not a signaling play at this point in time, but it definitely will evolve in that direction.

Mike J. Latimore
Analyst, Northland Capital Markets

Q

Okay. Got it. And then just on the product mix, you called out sort of $12.5 million from the two SBC categories, but I guess in terms of just the products overall, was media gateway less than half of product revenue?

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Susan, do you have that number? I'm pretty sure it was.

Susan M. Villare
Chief Financial Officer (Interim), Sonus Networks, Inc.

A

Yes, it was.

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Yeah, the media gateway GSX 9000 was less than that. And it could come in, there's a little bumps along the way, but the majority of our customers are now talking to us, not even just about SBCs, about architecture. Because, again, when I joined the company, we were a gateway company that literally missed the turn to SBCs, and there was a lot of discussion, why don't you just spinoff your old gateway business and become a pure play? This was when we had a market comp in Acme.

We didn't just move to SBCs to be an SBC company because that sun was going to set before we even got to the horizon. We set about being an SBC company so that it could have the opportunity to virtualize that and participate in an evolved architecture. We weren't a 100% sure that the architecture would evolve the way it did, so we thought we had good odds since we grew up above the stack and in the application layer.

So now we actually don't talk – we'll report to you. I don't want to suggest that we're going to go opaque with you regarding gateway revenues and SBC revenues. We'll be as transparent as we can. But we're really selling an architecture right now. That's why I'm comfortable guiding to flat to modest growth with the back end load, and telling you where our cash flow is going to come from. I mean, think about it, we've got a solid balance sheet, solid cash flow, but here's the real asset: deeply embedded in these telcos, trusted to run their massive voice networks, knowing that running voice networks will eventually run the evolved architecture, and we're first to being virtualized.

When we complete this other project, we already have a reference account, but we will then have a reference account with a gold label on it, saying we can lead the world into a virtualized, cloudified architecture. That's the principle reason that I spent so much time on strategy today. But I also want to point out, I think we posted some pretty good numbers in the fourth quarter, and I believe we'll post some pretty good numbers next year, albeit we'll be back-end loaded.

Mike J. Latimore
Analyst, Northland Capital Markets

Q

Got it. And then just last question, do you think your services revenue would be stable or growing this year?

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

It'll be stable. I doubt it'll be growing. We describe services, Mike, as both maintenance and services. We're starting to evolve beyond the complexity of the initial installs, so our PS is probably flat, maybe a little bit down quarter-to-quarter, but overall for the year, probably flat.

Our maintenance for the old stuff is declining probably about 5% as people either decommission or we offer them price breaks for multiyear extensions. The maintenance attached on the new stuff is just enough to keep that flat, and eventually we'll completely mitigate the risk of follow-up on the maintenance side within a year or two. So I would think of our services number as basically flat. If it's down, it's down low-single digits.

Mike J. Latimore
Analyst, Northland Capital Markets

Q

Sure. Okay, thanks.

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Sure.

Operator: Thank you. Our next question comes from the line of Dmitry Netis with William Blair. Please go ahead.

Dmitry G. Netis
Analyst, William Blair & Co. LLC

Q

Okay. Thank you very much, guys, for squeezing me in. A couple of questions. I guess, I enjoyed the strategic framework. I just wanted to follow up on that. Ray, I'm sure you'd love to talk more about it. But one thing I caught in what you said was that you're moving to GPU transcoding. So I'm trying to appreciate a little bit more what that really means, and why would you shift from – I don't know if it was FPGA based in prior lives to now GPU or CPU based transcoding? And what does it do? How does that differentiate you competitively? Do you expect – I'd imagine that the rest of the peers will follow that model if this is what's dictated by the customers. Does it help the margin? What does it do, essentially, that that's what a model with GPU in it?

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Sure, happy to talk about it, Dmitry, and this gets a little wonky, so I'll keep it short, and I'm happy to follow up with you when we see you over at Mobile World Congress. Okay, we didn't start in FPGAs, although, maybe it was developed very early on. We commercialized around a DSP. That's where the world was around at the turn of the century. TI owned the category. There were others, and we were standardized around the TI DSP. The difference is we didn't just buy libraries from TI, we built our own DSP code, and we've hardened that code over 15 years.

So we really owned transcoding which was massively strategic to voice. Now, there's a debate as to how important that is for video because a lot of times if you're called to a video call, you basically click on a client, and you're in an island, if you will, of video connectivity, and everybody is running the same protocols, and there's no transcoding. The odds are that's going to evolve, especially in virtual reality and things like that. But so if you just think about where we were, DSPs evolved to CPUs. We went from committed silicon to run the special purpose of transcoding to like – look, if everybody is going to use Moore's Law, let's get this ported to CPUs. We did that. Many others in the industry did that. But we did it by optimizing our existing code. Others did it by optimizing libraries.

So we've always had an advantage. I'd call it a significant advantage, but it was a technology advantage that most people in the market didn't understand, but our customers did. It definitely drove economics, but on the margin. When you move to the cloud, the cloud is – the data center standardizing around a GPU. That's the new CPU, if you will, of the data center. It's massive. It's called a graphics processing unit, and it's state-of-the-art. By moving to GPUs, however, most people would tell you two years ago, you lose about 80% of your efficiency that you see in CPUs. We have done extensive work over the last two years and have literally not only mitigated that disadvantage, we started to perform better in GPUs than CPUs. People are blown away by that. And we can show it to them in our Richardson facility, and we have.

Why is it matter? Because when the cloud evolves, you're going to have to determine where do you want to do your transcoding? You may distribute signaling one way, you may distribute media another way. And this gives cloud players the ability to keep transcoding assets wherever they want to in the cloud and run them through GPUs, as opposed to having transcoding pools that they have to go back and get. Because latency is going to become an increasing issue in the cloud. It already is. When we talk to Azure, we talk to Amazon or Google, transcoding is one of those things – the good news is they're growing so much on data that they don't really worry about it, but they know they need to make this pivot.

Dmitry G. Netis
Analyst, William Blair & Co. LLC

Q

Yeah, yeah.

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

So that's why it's important. I'll probably stop there, if you don't mind, Dmitry, because rest of the audience may or may not care much about this. But it's a big deal for us and it's a credibility issue that we really, truly get the corner cases, if you will, that at the end of the day, are going to drive the economics of cloud.

Dmitry G. Netis
Analyst, William Blair & Co. LLC

Q

Very helpful. Very helpful. And when do you expect the cloud guys to sort of jump on this bandwagon? Are we still sort of in development phase, in R&D discussion phase throughout the year or could this really come in as a 2017 opportunity? And as you talk to that, can you also mention whether the launch of the security product you've been talking about for several quarters now is expected this year or is that more of a 2018 event?

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

So for 2017, yeah, I've laid out the framework that I see happening. I don't expect anything strategically to change that trajectory. I'll be very pleased if it does. But I'm going to spend most of our time talking about what Jess pointed out earlier, which is managing the risk in the large projects, so that it doesn't like shift into Q1 and blow up our second half. I don't believe, by the way, by pointing to that that that's an issue, but I just wanted you to know what I'm going to be focused on.

The issue here is about 2018 and beyond, okay, Dmitry? And when are the cloud guys going to engage? They are now. We're having meetings right now with service providers and cloud players at Mobile World Congress, okay? So the engagement has begun. When will it impact our results? I just don't know. It always looks like it happens overnight, but it never happens until it happens. So, most of them know that they need to move from stateless to stateful. But frankly, they're growing 50% year-over-year. Why do you need to change, right? The firewall guys know they have to move from a bump in the wire that blacklist behavior and stops things to a whitelist behavior that creates things.

But frankly, that runs at a completely different clock than a firewall and they're making so much money in San Francisco at RSA right now that nobody is paying attention, okay? But everybody knows this is where the world is going, everybody. So when does it change? We'll keep you posted. But I'm very excited about our leverage, because this is a company that has not had a lot of leverage for the last 10 years and now has a substantial shot at the leverage it had at its early days and we're going to stay focused on that.

Dmitry G. Netis
Analyst, William Blair & Co. LLC

Q

Okay. Last question, or two in one, if you will. Just a clarification on Taqua. Are you going to tell us what the expectation there is for Taqua in 2017? I don't know if you're going to break this out or not, but it would be interesting to know what you expect in terms of revenue or growth from that unit. And also, as you look at the Skype for Business, do you think there's any tailwind from Skype for Business? I know one of the competitors had noticed some flattening of growth this year and maybe re-acceleration in 2018 timeframe. I wonder if you're seeing the same thing or are you seeing something different in potentially sort of aligning yourself closer to this Cloud Edition product, hosted cloud that Microsoft is putting out on the market?

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Okay. So two questions in one, Dmitry. So Taqua, no, we're not going to break it out. But I'll just give you a ballpark and I'll frankly just ignore future questions, if you don't mind, because we're not going to break it out. You can think of it as just modestly sub $10 million contribution. I'd be thrilled if it was twice that, but I just can't trust some of the long opportunities in there to score them into our plan and then miss our plan because of a long sales cycle. So I would point to Taqua more as a strategic contributor than a financial contributor right now, and I'll just leave it at that, okay? But I do believe that the cost adjustments that we've been able to make will allow it to be breakeven to accretive in 2017. Going forward, we don't plan to comment on Taqua as a standalone company.

Second, Skype for Business, yeah, I called it flat in our 2017 outlook. We're just carrying it flat going forward, because I hope that's conservative. But I have been disappointed by Microsoft and Lync before because this has been a strategic imperative, pound the table kind of imperative that we're going to go to cloud, only to find out that you're caught up in discussions as to whether or not to be a regulated CLEC, and blah, blah, blah. But now the discussions are getting much more strategic.

Some of our biggest enterprise customers that are thinking about going Skype for Business are literally telling them, look, we want to use the Sonus PSX and their virtualized instance into a hosted environment and we have just shifted our discussions to a place that's very, very favorable to us. Nobody else – the other company that you referred to, totally irrelevant in that space. No way can they scale and distribute across the cloud the way we can. So I'm just not – I'd just ignore that as a data point, whether they're seeing an uplift or a down-lift in a market that's going to shift completely in the next 24 months to a hosted environment. Okay?

Dmitry G. Netis
Analyst, William Blair & Co. LLC

Q

Sounds good. Thanks for taking all my questions. Good luck.

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Thank you, Dmitry.

Operator: Thank you. Our last question comes from the line of [ph] Steven Cohen with Provo (01:01:07). Please go ahead.

Q

Hi. Good morning, Ray. Concerning the strategic vision that you guys spoke about, I'm trying to understand the timeframe around that, vis-à-vis generating revenue growth. You talked about this deal in Mexico having 18-month, two-year get ready before it actually is going to score into revenue. Is that your expectation as far as this strategy plays out? In other words, revenue from the implementation of that strategy is more likely to be a post-2018 event?

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

[ph] Steve (01:01:45), are you talking about Latin America and South Africa?

Q

As an example of the...

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

No, those will be 2017. They'll be just be modest. Those don't have a long-term effect.

Q

No, no, I got it. No. What I meant is...

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

The multi-year one I referred to is – go ahead.

Q

I meant the strategy that you enunciated as far as everything shifting to the cloud, et cetera, and is that a long get-ready time? So in other words, once the customer decides that they're moving in that direction, it's still going to be several years before you're going to score it as revenue? Or is it therefore, even if they start late 2017 thinking about that, it's going to be well beyond 2018 before you see the revenue effect?

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Yeah. [ph] Steve (01:02:28), I'm not calling revenue effect from this in any calendar year. What I'm trying to separate out is the fact that I think we can be very healthy and are a very healthy flat revenue company with solid gross margins, generating cash with a solid balance sheet. And then we have an option to create a new industry. I believe that new industry is imminent. I believe its revenue models are in flux. So I literally can't answer your question. If we end up askew inside a next gen firewall, we could score things as early as 2018. That's relatively trivial. But what it actually does is it stresses the firewall to become part of a network that moves at a clock speed that they can't tolerate. So it goes back into a long R&D cycle then it pushes it out further.

Either one those outcomes would land us in a massively strategic leverage position for a decade. So what I'm trying to separate out is that Sonus is simultaneously an operating company that generates cash, and an option for the future. And what I'm trying to articulate is that option. If you're trying to model it, I understand that, but I haven't gotten to that level of clarification yet, okay? So all of the numbers that I've given you have literally nothing in it for that optionality. And you're welcome to discount that to zero, or you're welcome to put 1999 bubble levels on it. That's your call. But that's the company that we're running, and that's the company that folks are covering.

Q

Thanks.

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

A

Okay? Thank you.

Operator: Thank you. There are no further questions at this time.

Raymond P. Dolan
President, Chief Executive Officer & Director, Sonus Networks, Inc.

Okay. Thank you very much, everyone, and I know the market is open, everybody is probably either gone or leaving. Thanks for your time today, and I look forward to seeing many of you over the next few weeks. Have a good day.

Susan M. Villare
Chief Financial Officer (Interim), Sonus Networks, Inc.

Thank you.

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