



## Sonus Networks Releases Third Quarter 2017 Financial Results



October 30, 2017

WESTFORD, Mass. – Sonus Networks, Inc. (Nasdaq: SONS), a global leader in secure and intelligent cloud communications, today announced results for Sonus and GENBAND for the third quarter ended September 30, 2017.

“Sonus’ third quarter results were highlighted by 14.8% year-over-year revenue growth and non-GAAP gross margin of 75.6%. We are very pleased on delivering major milestones for the large competitive displacement for a North American Tier 1 carrier. These achievements demonstrate our evolution to software solutions and the result of many years of investment in network virtualization,” said Raymond Dolan, president and chief executive officer.

Mr. Dolan continued, “We have completed extensive Sonus and GENBAND integration planning with significant first day integration execution underway and remain committed to attaining the \$40 million to \$50 million of annual cost savings anticipated when we announced our plans this past May. As a combined company, our product offerings are even more strategic to customers, and our scale will allow us to invest even more in key areas as both service providers and enterprises migrate to fully-virtualized, cloud architectures.”

### Financial Highlights

The following table summarizes Sonus’ consolidated third quarter financial results (in millions, except per share amounts):

|  | Quarter Ended     |                   |
|--|-------------------|-------------------|
|  | Sept. 30,<br>2017 | Sept. 30,<br>2016 |
| Product revenue  | \$44.1            | \$38.6            |
| Service revenue  | \$30.5            | \$26.4            |
| Total revenue  | \$74.6            | \$65.0            |
| GAAP gross margin  | 73.1%             | 67.0%             |
| Non-GAAP gross margin <sup>1</sup>                             | 75.6%             | 69.9%             |
| GAAP income (loss) from operations as a % of revenue           | 5.3%              | (6.6)%            |
| Non-GAAP income from operations as a % of revenue <sup>1</sup> | 18.0%             | 9.9%              |
| GAAP diluted earnings per share or (loss) per share            | \$0.07            | \$(0.08)          |
| Non-GAAP diluted earnings per share <sup>1</sup>               | \$0.26            | \$0.12            |

<sup>1</sup> Please see the reconciliation of non-GAAP and GAAP financial measures in the press release appendix.

Cash and investments were \$131.6 million at the end of the third quarter of 2017, compared to \$125.9 million at the end of the second quarter of 2017.

The Company had two customers that contributed 10% or more of total revenue in the third quarter of 2017: Verizon, which contributed approximately 16% of revenue, and AT&T, which contributed approximately 11% of revenue.

GENBAND revenue for the third quarter of 2017 was in line with the preliminary results reported on October 13, 2017; please see the “Third Quarter 2017 Results” presentation on our IR Website for more information regarding GENBAND’s historical financial results.

### Q3’17 Technology Highlights

- Sonus
  - SBC 5400 Session Border Controller Delivers Miercom Certified Security and Performance
  - Virtual Session Border Controller JITC-Certified for Deployment in U.S. Department of Defense Communications Networks
  - Delivers Secure, Smart and Simple Network Migration for Microsoft Skype for Business
- GENBAND
  - Expands NFV Portfolio with a Converged Intelligent Messaging Solution to offer Service Providers an End-to-End Cloud Messaging Platform
  - Expands VoLTE Media Processing Solutions to Help Mobile Service Providers Enhance Network Capacity & Voice Quality
  - Wins Silver Stevie® for Most Innovative Tech Company of the Year with Kandy cPaaS in 2017 International Business Awards<sup>SM</sup>

### Q3’17 Customer Wins

- Sonus
  - Algar Telecom Selects Sonus Cloud-Native Session Border Controller for Nationwide SIP Services Expansion
- GENBAND
  - “Paltel” Upgrades its Fixed Voice Network with GENBAND’s Industry-Leading NGN Transformation Solutions
  - Los Angeles Public Library Leverages GENBAND’s Kandy Business Solutions for Advanced Real Time Communications and Collaboration Capabilities

### FY17 Guidance (Sonus and GENBAND Combined)

|  | Sonus<br>01/01/2017 to<br>12/31/2017 | GENBAND <sup>1</sup><br>10/30/2017 to<br>12/31/2017<br>(2-month stub<br>period) | Restructuring<br>10/30/2017 to<br>12/31/2017 | Combined<br>FY’17                                 |
|--|--------------------------------------|---|--|---|
| Total revenue,<br>excluding impact of<br>purchase accounting | \$252.6M <sup>2</sup>                | \$80M <sup>3</sup> to \$90M <sup>3</sup>  |  | \$332.6M <sup>3</sup> to<br>\$342.6M <sup>3</sup> |
| Non-GAAP diluted<br>earnings per share                       | \$0.22                               | \$0.15 to \$0.24  | \$0.04                                       | \$0.41 to \$0.50                                  |
| Diluted shares <sup>4</sup>                                  | 59.1M                                | 59.1M   | 59.1M  | 59.1M   |

1) Projections are post close from 10/30/2017 to 12/31/2017 for GENBAND.

2) Flat from FY’16 revenue for Sonus of \$252.6M.

3) Revenue does not include impact of purchase accounting reductions, which are expected to be completed in Q4’17.

4) Share count increased from prior projections due to ~51M shares issued on 10/30/2017 related to the Sonus/GENBAND merger.

We are unable to provide a reconciliation of the forward-looking non-GAAP measures presented above to the most directly comparable GAAP measures without unreasonable efforts due to our inability at this time to estimate the amount and timing of charges (including acquisition-related, restructuring, merger integration and stock-based compensation expenses) to be incurred during the remainder of the year as a result of the Sonus/GENBAND merger, which was completed on October 27, 2017. We are also unable at this time to estimate the impact of purchase accounting reductions affecting GENBAND revenues.

#### **Conference Call Details**

Sonus Networks will offer a live, listen-only webcast of the conference call to discuss the complete financial results of Sonus and GENBAND for the third quarter ended September 30, 2017 on October 30, 2017, via the investor section of its website at <http://investors.sonusnet.com/events.cfm>, where a replay will also be available shortly following the conference call.

#### **Conference call details:**

Date: October 30, 2017

Time: 8:30 a.m. (ET)

Dial-in number: 888-612-1048 - International callers: +1-303-223-2690

#### **Replay information:**

A telephone playback of the call will be available following the conference call until November 13, 2017 and can be accessed by calling 800-633-8284 or +1-402-977-9140 for international callers. The reservation number for the replay is 21859826.

#### **Upcoming Fourth Quarter 2017 Investor Conferences and Meetings**

- November 1, 2017 – **Drexel Sponsored Non-Deal Roadshow**, Boston, Massachusetts
- November 7, 2017 – **Wells Fargo Media & Telecom Conference**, Intercontinental New York Barclay, New York City
- November 15, 2017 – **William Blair Sponsored Non-Deal Roadshow**, Baltimore, MD
- November 20, 2017 – **William Blair Sponsored Non-Deal Roadshow**, San Francisco, California

#### **About the Company**

Sonus Networks, Inc. is a company with two decades of leadership in real-time communications. Built on world class technology and intellectual property, the company delivers intelligent, secure, embedded real-time communications for today's world. The company transforms fixed, mobile and enterprise networks from legacy environments to secure IP and cloud-based architectures, enabling highly productive communications for consumers and businesses. With locations in 27 countries around the globe, the company's innovative, market leading portfolio empowers service providers and enterprises with rapid service creation in a fully virtualized environment. The company's Kandy Communications Platform as a Service (CPaaS) delivers a comprehensive set of advanced embedded communications capabilities that enables this transformation. To learn more visit [sonus.net](http://sonus.net)

References to Sonus Networks, Inc. ("Sonus Networks") relate to a Delaware holding company that was previously named Solstice Sapphire Investments, Inc., which was formed for the purpose of effecting a merger of Sonus, Inc., a Delaware corporation, and GENBAND Holdings Company and its two related holding companies, GENBAND Inc. and GENBAND II, Inc., pursuant to the Agreement and Plan of Merger between the parties, dated May 23, 2017.

References to Sonus relate to Sonus, Inc., which was previously known as Sonus Networks, Inc. and is now the operating company of Sonus Networks.

References to GENBAND relate to GENBAND Holdings Company.

#### **Important Information Regarding Forward-Looking Statements**

This press release 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 release, including statements made by our chief executive officer, statements regarding outlook for Sonus and GENBAND combined in the section "FY17

Guidance (Sonus and GENBAND Combined)", the future results of operations, financial position, integration efforts and opportunities for the combined company, business strategy, strategic position, and plans and objectives of management for future operations are forward-looking statements. Without limiting the foregoing, the words "anticipates", "believes", "could", "estimates", "expects", "expectations", "intends", "may", "plans", "seeks", "projects" and other similar language, whether in the negative or affirmative, are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, adjustments identified in the course of the Company's quarter-end and accounting review; the timing of customer purchasing decisions and our recognition of revenues; economic conditions; our ability to recruit and retain key personnel; difficulties supporting our strategic focus on channel sales; difficulties retaining and expanding our customer base; difficulties leveraging market opportunities; the impact of restructuring and cost-containment activities; our ability to realize benefits from the acquisitions that we have completed; the effects of disruption from the acquisitions that we have completed, making it more difficult to maintain relationships with employees, customers, business partners or government entities; the success implementing the integration strategies with respect to acquisitions; litigation; actions taken by significant stockholders; difficulties providing solutions that meet the needs of customers; market acceptance of our products and services; rapid technological and market change; our ability to protect our intellectual property rights; our ability to maintain partner, reseller, distribution and vendor support and supply relationships; higher risks in international operations and markets; the impact of increased competition; currency fluctuations; changes in the market price of our common stock; and/or failure or circumvention of our controls and procedures. Additional information about these and other important factors that could cause actual results to differ materially from those in these forward-looking statements is contained in the joint proxy statement/prospectus that is included in the registration statement on Form S-4 (File No. 333-219008) that was filed with the SEC by Sonus Networks, Inc. (formerly Solstice Sapphire Investments, Inc.) in connection with the transaction and the most recent Quarterly Report on Form 10-Q filed by Sonus, Inc. (formerly Sonus Networks, Inc.).

Our forward-looking 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 caution you against relying on any of these forward-looking statements. Any forward-looking statement made by us in this release speaks only as of the date of this release. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

Sonus is a registered trademark of Sonus, Inc. All other Company and product names may be trademarks of the respective companies with which they are associated.

#### **Discussion of Non-GAAP Financial Measures**

Sonus management uses several different financial measures, both GAAP and non-GAAP, in analyzing and assessing the overall performance of the business, making operating decisions, planning and forecasting future periods, and determining payments under compensation programs. Our annual financial plan is prepared both on a GAAP and non-GAAP basis, and the non-GAAP annual financial plan is approved by our board of directors. Continuous budgeting and forecasting for revenue and expenses are conducted on a non-GAAP basis (in addition to GAAP) and actual results on a non-GAAP basis are assessed against the annual financial plan. We consider the use of non-GAAP financial measures helpful in assessing the core performance of our continuing operations and liquidity, and when planning and forecasting future periods. By continuing operations, we mean the ongoing results of the business excluding certain expenses and credits, including, but not limited to: stock-based compensation, amortization of intangible assets, merger integration costs, settlement expense, acquisition-related expense, restructuring and certain gains included in other income (expense). While our management

uses non-GAAP financial measures as a tool to enhance their understanding of certain aspects of our financial performance, our management does not consider these measures to be a substitute for, or superior to, GAAP measures. In addition, our presentations of these measures may not be comparable to similarly titled measures used by other companies. These non-GAAP financial measures should not be considered alternatives for, or in isolation from, the financial information prepared and presented in accordance with GAAP.

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

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

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

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

In September 2017, we recorded \$1.6 million of expense related to potential fines in connection with the ongoing SEC investigation. In June 2016, we recorded \$0.6 million of patent litigation settlement costs. This amount is included as a component of General and administrative expense; however, we believe that such patent litigation settlement costs are not part of our core business or ongoing operations. Accordingly, we believe that excluding this patent litigation settlement expense facilitates the comparison of our financial results to our historical operating results and to other companies in our industry.

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

We have recorded restructuring expense to streamline operations and reduce operating costs by closing and consolidating certain facilities and reducing our worldwide workforce. We review our restructuring accruals regularly and record adjustments (both expense and credits) to these estimates as required. We believe that excluding restructuring expense and credits facilitates the comparison of our financial results to our historical operating results and to other companies in our industry, as there are no future revenue streams or other benefits associated with these costs.

In May 2017, we sold a block of IP addresses that we had acquired in connection with our acquisition of Network Equipment Technologies, Inc. ("NET") and recognized a gain, net of commission and fees, of \$0.6 million. In July 2016, we sold the NET domain name to a third party and recognized a gain, net of commission and fees, of \$0.8 million. These amounts are included as components of Other income, net, in the respective periods. We believe that such gains are not part of our core business or ongoing operations. Accordingly, we believe that excluding the other income arising from these sales facilitates the comparison of our financial results to our historical results and to other companies in our industry.

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

**Investor Relations:**

Sara Leggat  
+1 (978) 614-8841  
sleggat@sonusnet.com

**Media Relations:**

Bitia Milanian  
+1 (310) 210-3582  
bita.milanian@genband.com

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

|  | Three months ended    |                    |                       |
|--|-----------------------|--------------------|-----------------------|
|  | September 30,<br>2017 | June 30,<br>2017   | September 30,<br>2016 |
| Revenue:   |                       |                    |                       |
| Product  | \$ 44,120             | \$ 28,790          | \$ 38,601             |
| Service  | 30,509                | 26,943             | 26,410                |
| Total revenue                                    | <u>74,629</u>         | <u>55,733</u>      | <u>65,011</u>         |
| Cost of revenue:                                 |                       |                    |                       |
| Product  | 9,708                 | 9,287              | 12,285                |
| Service  | 10,374                | 10,044             | 9,140                 |
| Total cost of revenue                            | <u>20,082</u>         | <u>19,331</u>      | <u>21,425</u>         |
| Gross profit                                     | <u>54,547</u>         | <u>36,402</u>      | <u>43,586</u>         |
| Gross margin:                                    |                       |                    |                       |
| Product  | 78.0%                 | 67.7%              | 68.2%                 |
| Service  | 66.0%                 | 62.7%              | 65.4%                 |
| Total gross margin                               | 73.1%                 | 65.3%              | 67.0%                 |
| Operating expenses:                              |                       |                    |                       |
| Research and development                         | 20,798                | 20,064             | 18,230                |
| Sales and marketing                              | 17,454                | 15,720             | 18,103                |
| General and administrative                       | 10,833                | 8,141              | 8,998                 |
| Acquisition-related                              | 1,543                 | 4,679              | 951                   |
| Restructuring                                    | -                     | 501                | 1,620                 |
| Total operating expenses                         | <u>50,628</u>         | <u>49,105</u>      | <u>47,902</u>         |
| Income (loss) from operations                    | 3,919                 | (12,703)           | (4,316)               |
| Interest income, net                             | 260                   | 254                | 209                   |
| Other income, net                                | 1                     | 575                | 803                   |
| Income (loss) before income taxes                | 4,180                 | (11,874)           | (3,304)               |
| Income tax provision                             | (727)                 | (471)              | (427)                 |
| Net income (loss)                                | <u>\$ 3,453</u>       | <u>\$ (12,345)</u> | <u>\$ (3,731)</u>     |
| Earnings (loss) per share                        |                       |                    |                       |
| Basic  | \$ 0.07               | \$ (0.25)          | \$ (0.08)             |
| Diluted  | \$ 0.07               | \$ (0.25)          | \$ (0.08)             |
| Shares used to compute earnings (loss) per share |                       |                    |                       |
| Basic  | 49,753                | 49,543             | 49,402                |
| Diluted  | 50,131                | 49,543             | 49,402                |

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

|  | Nine months ended     |                       |
|--|-----------------------|-----------------------|
|  | September 30,<br>2017 | September 30,<br>2016 |
| Revenue:                               |                       |                       |
| Product                                | \$ 98,305             | \$ 108,719            |
| Service                                | 85,425                | 76,300                |
| Total revenue                          | <u>183,730</u>        | <u>185,019</u>        |
| Cost of revenue:                       |                       |                       |
| Product                                | 28,748                | 35,230                |
| Service                                | 30,285                | 27,572                |
| Total cost of revenue                  | <u>59,033</u>         | <u>62,802</u>         |
| Gross profit                           | <u>124,697</u>        | <u>122,217</u>        |
| Gross margin:                          |                       |                       |
| Product                                | 70.8%                 | 67.6%                 |
| Service                                | 64.5%                 | 63.9%                 |
| Total gross margin                     | 67.9%                 | 66.1%                 |
| Operating expenses:                    |                       |                       |
| Research and development               | 61,071                | 53,005                |
| Sales and marketing                    | 47,850                | 50,890                |
| General and administrative             | 27,993                | 26,656                |
| Acquisition-related                    | 6,278                 | 951                   |
| Restructuring                          | 1,071                 | 1,620                 |
| Total operating expenses               | <u>144,263</u>        | <u>133,122</u>        |
| Loss from operations                   | (19,566)              | (10,905)              |
| Interest income, net                   | 772                   | 590                   |
| Other income, net                      | 577                   | 916                   |
| Loss before income taxes               | (18,217)              | (9,399)               |
| Income tax provision                   | (1,321)               | (1,902)               |
| Net loss                               | <u>\$ (19,538)</u>    | <u>\$ (11,301)</u>    |
| Loss per share:                        |                       |                       |
| Basic                                  | \$ (0.39)             | \$ (0.23)             |
| Diluted                                | \$ (0.39)             | \$ (0.23)             |
| Shares used to compute loss per share: |                       |                       |
| Basic                                  | 49,472                | 49,436                |
| Diluted                                | 49,472                | 49,436                |



SONUS NETWORKS, INC.  
Condensed Consolidated Balance Sheets  
(in thousands)  
(unaudited)

|   | September 30,<br>2017       | December 31,<br>2016        |
|---|-----------------------------|-----------------------------|
|   | <u>                    </u> | <u>                    </u> |
| <b>Assets</b>                               |                             |                             |
| Current assets                              |                             |                             |
| Cash and cash equivalents                   | \$ 51,280                   | \$ 31,923                   |
| Marketable securities                       | 53,272                      | 61,836                      |
| Accounts receivable, net                    | 51,637                      | 53,862                      |
| Inventory                                   | 16,282                      | 18,283                      |
| Other current assets                        | 14,314                      | 12,010                      |
| Total current assets                        | <u>186,785</u>              | <u>177,914</u>              |
| Property and equipment, net                 | 9,742                       | 11,741                      |
| Intangible assets, net                      | 23,352                      | 30,197                      |
| Goodwill                                    | 49,891                      | 49,393                      |
| Investments                                 | 27,018                      | 32,371                      |
| Deferred income taxes                       | 1,570                       | 1,542                       |
| Other assets                                | 4,086                       | 4,901                       |
|   | <u>\$ 302,444</u>           | <u>\$ 308,059</u>           |
| <b>Liabilities and stockholders' equity</b> |                             |                             |
| Current liabilities                         |                             |                             |
| Accounts payable                            | \$ 6,947                    | \$ 6,525                    |
| Accrued expenses                            | 23,771                      | 25,886                      |
| Current portion of deferred revenue         | 48,182                      | 43,504                      |
| Current portion of long-term liabilities    | 707                         | 1,154                       |
| Total current liabilities                   | <u>79,607</u>               | <u>77,069</u>               |
| Deferred revenue                            | 6,777                       | 7,188                       |
| Deferred income taxes                       | 3,687                       | 3,047                       |
| Other long-term liabilities                 | 1,791                       | 1,633                       |
| Total liabilities                           | <u>91,862</u>               | <u>88,937</u>               |
| Commitments and contingencies               |                             |                             |
| Stockholders equity                         |                             |                             |
| Common stock                                | 50                          | 49                          |
| Additional paid-in capital                  | 1,261,627                   | 1,250,744                   |
| Accumulated deficit                         | (1,056,712)                 | (1,037,174)                 |
| Accumulated other comprehensive income      | 5,617                       | 5,503                       |
| Total stockholders' equity                  | <u>210,582</u>              | <u>219,122</u>              |
|   | <u>\$ 302,444</u>           | <u>\$ 308,059</u>           |

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

|  | Nine months ended     |                       |
|--|-----------------------|-----------------------|
|  | September 30,<br>2017 | September 30,<br>2016 |
| Cash flows from operating activities:  |                       |                       |
| Net loss   | \$ (19,538)           | \$ (11,301)           |
| Adjustments to reconcile net loss to cash flows provided by operating activities:                  |                       |                       |
| Depreciation and amortization of property and equipment  | 5,255                 | 5,914                 |
| Amortization of intangible assets  | 6,845                 | 5,493                 |
| Stock-based compensation   | 11,387                | 15,464                |
| Loss on disposal of property and equipment   | 10                    | 29                    |
| Gain on sale of IP address blocks  | (576)                 | (800)                 |
| Deferred income taxes  | 687                   | 763                   |
| Changes in operating assets and liabilities:   |                       |                       |
| Accounts receivable  | 2,360                 | 9,287                 |
| Inventory  | 1,806                 | 2,756                 |
| Other operating assets   | (545)                 | (798)                 |
| Accounts payable   | 384                   | (2,904)               |
| Accrued expenses and other long-term liabilities   | (3,028)               | (12,032)              |
| Deferred revenue   | 4,000                 | (1,823)               |
| Net cash provided by operating activities  | <u>9,047</u>          | <u>10,048</u>         |
| Cash flows from investing activities:  |                       |                       |
| Purchases of property and equipment  | (3,265)               | (3,637)               |
| Business acquisitions, net of cash acquired  | -                     | (20,669)              |
| Purchases of marketable securities   | (28,731)              | (62,468)              |
| Sale/maturities of marketable securities   | 41,964                | 65,327                |
| Proceeds from the sale of IP address blocks  | 576                   | 800                   |
| Net cash provided by (used in) investing activities  | <u>10,544</u>         | <u>(20,647)</u>       |
| Cash flows from financing activities:  |                       |                       |
| Proceeds from sale of common stock in connection with employee stock purchase plan                 | 1,252                 | 1,360                 |
| Proceeds from exercise of stock options  | 149                   | 135                   |
| Payment of tax withholding obligations related to net share settlements of restricted stock awards | (1,904)               | (1,538)               |
| Repurchase of common stock   | -                     | (7,130)               |
| Principal payments of capital lease obligations  | (30)                  | (33)                  |
| Net cash used in financing activities  | <u>(533)</u>          | <u>(7,206)</u>        |
| Effect of exchange rate changes on cash and cash equivalents                                       | <u>299</u>            | <u>260</u>            |
| Net increase (decrease) in cash and cash equivalents   | 19,357                | (17,545)              |
| Cash and cash equivalents, beginning of year   | 31,923                | 50,111                |
| Cash and cash equivalents, end of period   | <u>\$ 51,280</u>      | <u>\$ 32,566</u>      |

SONUS NETWORKS, INC.  
Supplemental Information  
(In thousands)  
(unaudited)

The following tables provide the details of stock-based compensation, amortization of intangible assets, merger integration costs, a patent litigation settlement and the gain on the sale of IP address blocks included in the Company's Statements of Operations and the line items in which these amounts are reported.

|  | Three months ended    |                  |                       |
|--|-----------------------|------------------|-----------------------|
|  | September 30,<br>2017 | June 30,<br>2017 | September 30,<br>2016 |
| <b>Stock-based compensation</b>                            |                       |                  |                       |
| Cost of revenue - product                                  | \$ 75                 | \$ 87            | \$ 95                 |
| Cost of revenue - service                                  | 199                   | 261              | 331                   |
| Cost of revenue  | <u>274</u>            | <u>348</u>       | <u>426</u>            |
| Research and development expense                           | 1,095                 | 1,238            | 1,298                 |
| Sales and marketing expense                                | 871                   | 907              | 3,048                 |
| General and administrative expense                         | 1,647                 | 1,744            | 1,636                 |
| Operating expense  | <u>3,613</u>          | <u>3,889</u>     | <u>5,982</u>          |
| Total stock-based compensation                             | <u>\$ 3,887</u>       | <u>\$ 4,237</u>  | <u>\$ 6,408</u>       |
| <b>Amortization of intangible assets</b>                   |                       |                  |                       |
| Cost of revenue - product                                  | \$ 1,601              | \$ 1,601         | \$ 1,455              |
| Sales and marketing expense                                | 692                   | 692              | 319                   |
| Operating expense  | <u>692</u>            | <u>692</u>       | <u>319</u>            |
| Total amortization of intangible assets                    | <u>\$ 2,293</u>       | <u>\$ 2,293</u>  | <u>\$ 1,774</u>       |
| <b>Merger integration costs</b>                            |                       |                  |                       |
| General and administrative expense                         | <u>\$ 178</u>         | <u>\$ -</u>      | <u>\$ -</u>           |
| <b>Settlement expense</b>                                  |                       |                  |                       |
| General and administrative expense                         | <u>\$ 1,600</u>       | <u>\$ -</u>      | <u>\$ -</u>           |
| <b>Gains on sales of IP address blocks and domain name</b> |                       |                  |                       |
| Other income, net  | <u>\$ -</u>           | <u>\$ 576</u>    | <u>\$ 800</u>         |

SONUS NETWORKS, INC.  
Supplemental Information  
(In thousands)  
(unaudited)

The following tables provide the details of stock-based compensation, amortization of intangible assets, merger integration costs, a patent litigation settlement and the gain on the sale of IP address blocks included in the Company's Statements of Operations and the line items in which these amounts are reported.

|  | Nine months ended     |                       |
|--|-----------------------|-----------------------|
|  | September 30,<br>2017 | September 30,<br>2016 |
| <b>Stock-based compensation</b>                            |                       |                       |
| Cost of revenue - product                                  | \$ 261                | \$ 259                |
| Cost of revenue - service                                  | 777                   | 985                   |
| Cost of revenue  | <u>1,038</u>          | <u>1,244</u>          |
| Research and development expense                           | 3,650                 | 3,687                 |
| Sales and marketing expense                                | 1,690                 | 5,292                 |
| General and administrative expense                         | 5,009                 | 5,241                 |
| Operating expense  | <u>10,349</u>         | <u>14,220</u>         |
| Total stock-based compensation                             | <u>\$ 11,387</u>      | <u>\$ 15,464</u>      |
| <b>Amortization of intangible assets</b>                   |                       |                       |
| Cost of revenue - product                                  | <u>\$ 4,768</u>       | <u>\$ 4,537</u>       |
| Sales and marketing expense                                | <u>2,077</u>          | <u>956</u>            |
| Operating expense  | <u>2,077</u>          | <u>956</u>            |
| Total amortization of intangible assets                    | <u>\$ 6,845</u>       | <u>\$ 5,493</u>       |
| <b>Merger integration costs</b>                            |                       |                       |
| General and administrative expense                         | <u>\$ 178</u>         | <u>\$ -</u>           |
| <b>Settlement expense</b>                                  |                       |                       |
| General and administrative expense                         | <u>\$ 1,600</u>       | <u>\$ 605</u>         |
| <b>Gains on sales of IP address blocks and domain name</b> |                       |                       |
| Other income, net  | <u>\$ 576</u>         | <u>\$ 800</u>         |

SONUS NETWORKS, INC.  
Reconciliation of Non-GAAP and GAAP Financial Measures - Historical  
(in thousands, except percentages and per share amounts)  
(unaudited)

|  | Three months ended    |                   |                       |
|--|-----------------------|-------------------|-----------------------|
|  | September 30,<br>2017 | June 30,<br>2017  | September 30,<br>2016 |
| <b>GAAP gross margin - product</b>   | 78.0%                 | 67.7%             | 68.2%                 |
| Stock-based compensation expense   | 0.2%                  | 0.3%              | 0.2%                  |
| Amortization of intangible assets  | 3.6%                  | 5.6%              | 3.8%                  |
| <b>Non-GAAP gross margin - product</b>   | <u>81.8%</u>          | <u>73.6%</u>      | <u>72.2%</u>          |
| <b>GAAP gross margin - service</b>   | 66.0%                 | 62.7%             | 65.4%                 |
| Stock-based compensation expense   | 0.6%                  | 1.0%              | 1.2%                  |
| <b>Non-GAAP gross margin - service</b>   | <u>66.6%</u>          | <u>63.7%</u>      | <u>66.6%</u>          |
| <b>GAAP total gross margin</b>   | 73.1%                 | 65.3%             | 67.0%                 |
| Stock-based compensation expense   | 0.4%                  | 0.6%              | 0.7%                  |
| Amortization of intangible assets  | 2.1%                  | 2.9%              | 2.2%                  |
| <b>Non-GAAP total gross margin</b>   | <u>75.6%</u>          | <u>68.8%</u>      | <u>69.9%</u>          |
| <b>GAAP total gross profit</b>   | \$ 54,547             | \$ 36,402         | \$ 43,586             |
| Stock-based compensation expense   | 274                   | 348               | 426                   |
| Amortization of intangible assets  | 1,601                 | 1,601             | 1,455                 |
| <b>Non-GAAP total gross profit</b>   | <u>\$ 56,422</u>      | <u>\$ 38,351</u>  | <u>\$ 45,467</u>      |
| <b>GAAP research and development expense</b>                                   | \$ 20,798             | \$ 20,064         | \$ 18,230             |
| Stock-based compensation expense   | (1,095)               | (1,238)           | (1,298)               |
| <b>Non-GAAP research and development expense</b>                               | <u>\$ 19,703</u>      | <u>\$ 18,826</u>  | <u>\$ 16,932</u>      |
| <b>GAAP sales and marketing expense</b>  | \$ 17,454             | \$ 15,720         | \$ 18,103             |
| Stock-based compensation expense   | (871)                 | (907)             | (3,048)               |
| Amortization of intangible assets  | (692)                 | (692)             | (319)                 |
| <b>Non-GAAP sales and marketing expense</b>                                    | <u>\$ 15,891</u>      | <u>\$ 14,121</u>  | <u>\$ 14,736</u>      |
| <b>GAAP general and administrative expense</b>                                 | \$ 10,833             | \$ 8,141          | \$ 8,998              |
| Stock-based compensation expense   | (1,647)               | (1,744)           | (1,636)               |
| Merger integration costs   | (178)                 | -                 | -                     |
| Settlement expense   | (1,600)               | -                 | -                     |
| <b>Non-GAAP general and administrative expense</b>                             | <u>\$ 7,408</u>       | <u>\$ 6,397</u>   | <u>\$ 7,362</u>       |
| <b>GAAP operating expenses</b>   | \$ 50,628             | \$ 49,105         | \$ 47,902             |
| Stock-based compensation expense   | (3,613)               | (3,889)           | (5,982)               |
| Amortization of intangible assets  | (692)                 | (692)             | (319)                 |
| Merger integration costs   | (178)                 | -                 | -                     |
| Settlement expense   | (1,600)               | -                 | -                     |
| Acquisition-related expense  | (1,543)               | (4,679)           | (951)                 |
| Restructuring  | -                     | (501)             | (1,620)               |
| <b>Non-GAAP operating expenses</b>   | <u>\$ 43,002</u>      | <u>\$ 39,344</u>  | <u>\$ 39,030</u>      |
| <b>GAAP income (loss) from operations</b>                                      | \$ 3,919              | \$ (12,703)       | \$ (4,316)            |
| Stock-based compensation expense   | 3,887                 | 4,237             | 6,408                 |
| Amortization of intangible assets  | 2,293                 | 2,293             | 1,774                 |
| Merger integration costs   | 178                   | -                 | -                     |
| Settlement expense   | 1,600                 | -                 | -                     |
| Acquisition-related expense  | 1,543                 | 4,679             | 951                   |
| Restructuring  | -                     | 501               | 1,620                 |
| <b>Non-GAAP income (loss) from operations</b>                                  | <u>\$ 13,420</u>      | <u>\$ (993)</u>   | <u>\$ 6,437</u>       |
| <b>GAAP income (loss) from operations as a percentage of revenue</b>           | 5.3%                  | -22.8%            | -6.6%                 |
| Stock-based compensation expense   | 5.2%                  | 7.6%              | 9.8%                  |
| Amortization of intangible assets  | 3.1%                  | 4.1%              | 2.7%                  |
| Merger integration costs   | 0.2%                  | 0.0%              | 0.0%                  |
| Settlement expense   | 2.1%                  | 0.0%              | 0.0%                  |
| Acquisition-related expense  | 2.1%                  | 8.4%              | 1.5%                  |
| Restructuring  | 0.0%                  | 0.9%              | 2.5%                  |
| <b>Non-GAAP income (loss) from operations as a percentage of revenue</b>       | <u>18.0%</u>          | <u>-1.8%</u>      | <u>9.9%</u>           |
| <b>GAAP other income, net</b>  | \$ 1                  | \$ 575            | \$ 803                |
| Gains on sales of IP address blocks and domain name                            | -                     | (576)             | (800)                 |
| <b>Non-GAAP other income (expense), net</b>                                    | <u>\$ 1</u>           | <u>\$ (1)</u>     | <u>\$ 3</u>           |
| <b>GAAP net income (loss)</b>  | \$ 3,453              | \$ (12,345)       | \$ (3,731)            |
| Stock-based compensation expense   | 3,887                 | 4,237             | 6,408                 |
| Amortization of intangible assets  | 2,293                 | 2,293             | 1,774                 |
| Merger integration costs   | 178                   | -                 | -                     |
| Settlement expense   | 1,600                 | -                 | -                     |
| Acquisition-related expense  | 1,543                 | 4,679             | 951                   |
| Restructuring  | -                     | 501               | 1,620                 |
| Gains on sales of IP address blocks and domain name                            | -                     | (576)             | (800)                 |
| <b>Non-GAAP net income (loss)</b>  | <u>\$ 12,954</u>      | <u>\$ (1,211)</u> | <u>\$ 6,222</u>       |
| <b>Diluted earnings per share or (loss) per share</b>                          |                       |                   |                       |
| <b>GAAP diluted earnings (loss) per share</b>                                  | \$ 0.07               | \$ (0.25)         | \$ (0.08)             |
| Stock-based compensation expense   | 0.08                  | 0.09              | 0.13                  |
| Amortization of intangible assets  | 0.05                  | 0.05              | 0.04                  |
| Merger integration costs   | *                     | -                 | -                     |
| Settlement expense   | 0.03                  | -                 | -                     |
| Acquisition-related expense  | 0.03                  | 0.09              | 0.02                  |
| Restructuring  | -                     | 0.01              | 0.03                  |
| Gains on sales of IP address blocks and domain name                            | -                     | (0.01)            | (0.02)                |
| <b>Non-GAAP diluted earnings (loss) per share</b>                              | <u>\$ 0.26</u>        | <u>\$ (0.02)</u>  | <u>\$ 0.12</u>        |
| <b>Shares used to compute diluted earnings per share or (loss) per share</b>   |                       |                   |                       |
| GAAP shares used to compute diluted earnings per share or (loss) per share     | 49,753                | 49,543            | 49,402                |
| Non-GAAP shares used to compute diluted earnings per share or (loss) per share | 50,131                | 49,543            | 49,877                |

\* Less than \$0.1 impact on earnings (loss) per share

SONUS NETWORKS, INC.  
Reconciliation of Non-GAAP and GAAP Financial Measures - Historical  
(in thousands, except percentages and per share amounts)  
(unaudited)

|  | Nine months ended     |                       |
|--|-----------------------|-----------------------|
|  | September 30,<br>2017 | September 30,<br>2016 |
| <b>GAAP gross margin - product</b>   | 70.8%                 | 67.6%                 |
| Stock-based compensation expense   | 0.3%                  | 0.2%                  |
| Amortization of intangible assets  | 4.8%                  | 4.2%                  |
| <b>Non-GAAP gross margin - product</b>                                       | <u>75.9%</u>          | <u>72.0%</u>          |
| <b>GAAP gross margin - service</b>   | 64.5%                 | 63.9%                 |
| Stock-based compensation expense   | 1.0%                  | 1.3%                  |
| <b>Non-GAAP gross margin - service</b>                                       | <u>65.5%</u>          | <u>65.2%</u>          |
| <b>GAAP total gross margin</b>   | 67.9%                 | 66.1%                 |
| Stock-based compensation expense   | 0.6%                  | 0.6%                  |
| Amortization of intangible assets  | 2.5%                  | 2.5%                  |
| <b>Non-GAAP total gross margin</b>   | <u>71.0%</u>          | <u>69.2%</u>          |
| <b>GAAP total gross profit</b>   | \$ 124,697            | \$ 122,217            |
| Stock-based compensation expense   | 1,038                 | 1,244                 |
| Amortization of intangible assets  | 4,768                 | 4,537                 |
| <b>Non-GAAP total gross profit</b>   | <u>\$ 130,503</u>     | <u>\$ 127,998</u>     |
| <b>GAAP research and development expense</b>                                 | \$ 61,071             | \$ 53,005             |
| Stock-based compensation expense   | (3,650)               | (3,687)               |
| <b>Non-GAAP research and development expense</b>                             | <u>\$ 57,421</u>      | <u>\$ 49,318</u>      |
| <b>GAAP sales and marketing expense</b>                                      | \$ 47,850             | \$ 50,890             |
| Stock-based compensation expense   | (1,690)               | (5,292)               |
| Amortization of intangible assets  | (2,077)               | (956)                 |
| <b>Non-GAAP sales and marketing expense</b>                                  | <u>\$ 44,083</u>      | <u>\$ 44,642</u>      |
| <b>GAAP general and administrative expense</b>                               | \$ 27,993             | \$ 26,656             |
| Stock-based compensation expense   | (5,009)               | (5,241)               |
| Merger integration costs   | (178)                 | -                     |
| Settlement expense   | (1,600)               | (605)                 |
| <b>Non-GAAP general and administrative expense</b>                           | <u>\$ 21,206</u>      | <u>\$ 20,810</u>      |
| <b>GAAP operating expenses</b>   | \$ 144,263            | \$ 133,122            |
| Stock-based compensation expense   | (10,349)              | (14,220)              |
| Amortization of intangible assets  | (2,077)               | (956)                 |
| Merger integration costs   | (178)                 | -                     |
| Settlement expense   | (1,600)               | (605)                 |
| Acquisition-related expense  | (6,278)               | (951)                 |
| Restructuring  | (1,071)               | (1,620)               |
| <b>Non-GAAP operating expenses</b>   | <u>\$ 122,710</u>     | <u>\$ 114,770</u>     |
| <b>GAAP loss from operations</b>   | \$ (19,566)           | \$ (10,905)           |
| Stock-based compensation expense   | 11,387                | 15,464                |
| Amortization of intangible assets  | 6,845                 | 5,493                 |
| Merger integration costs   | 178                   | -                     |
| Settlement expense   | 1,600                 | 605                   |
| Acquisition-related expense  | 6,278                 | 951                   |
| Restructuring  | 1,071                 | 1,620                 |
| <b>Non-GAAP income (loss) from operations</b>                                | <u>\$ 7,793</u>       | <u>\$ 13,228</u>      |
| <b>GAAP loss from operations as a percentage of revenue</b>                  | -10.6%                | -5.9%                 |
| Stock-based compensation expense   | 6.1%                  | 8.3%                  |
| Amortization of intangible assets  | 3.7%                  | 3.0%                  |
| Merger integration costs   | 0.1%                  | 0.0%                  |
| Settlement expense   | 0.9%                  | 0.3%                  |
| Acquisition-related expense  | 3.4%                  | 0.5%                  |
| Restructuring  | 0.6%                  | 0.9%                  |
| <b>Non-GAAP income (loss) from operations as a percentage of revenue</b>     | <u>4.2%</u>           | <u>7.1%</u>           |
| <b>GAAP other income, net</b>  | \$ 577                | \$ 916                |
| Gains on sales of IP address blocks and domain name                          | (576)                 | (800)                 |
| <b>Non-GAAP other income, net</b>  | <u>\$ 1</u>           | <u>\$ 116</u>         |
| <b>GAAP net loss</b>   | \$ (19,538)           | \$ (11,301)           |
| Stock-based compensation expense   | 11,387                | 15,464                |
| Amortization of intangible assets  | 6,845                 | 5,493                 |
| Merger integration costs   | 178                   | -                     |
| Settlement expense   | 1,600                 | 605                   |
| Acquisition-related expense  | 6,278                 | 951                   |
| Restructuring  | 1,071                 | 1,620                 |
| Gains on sales of IP address blocks and domain name                          | (576)                 | (800)                 |
| <b>Non-GAAP net income</b>   | <u>\$ 7,245</u>       | <u>\$ 12,032</u>      |
| <b>Diluted earnings per share or (loss) per share</b>                        |                       |                       |
| <b>GAAP loss per share</b>   | \$ (0.39)             | \$ (0.23)             |
| Stock-based compensation expense   | 0.22                  | 0.32                  |
| Amortization of intangible assets  | 0.14                  | 0.11                  |
| Merger integration costs   | *                     | -                     |
| Settlement expense   | 0.03                  | 0.01                  |
| Acquisition-related expense  | 0.13                  | 0.02                  |
| Restructuring  | 0.02                  | 0.03                  |
| Gains on sales of IP address blocks and domain name                          | (0.01)                | (0.02)                |
| <b>Non-GAAP diluted earnings per share</b>                                   | <u>\$ 0.14</u>        | <u>\$ 0.24</u>        |
| <b>Shares used to compute diluted earnings per share or (loss) per share</b> |                       |                       |
| GAAP shares used to compute loss per share                                   | 49,472                | 49,436                |
| Non-GAAP shares used to compute diluted earnings per share                   | 49,974                | 49,752                |

\* Less than \$0.1 impact on earnings (loss) per share