
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 27, 2013

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

For the transition period from to

Commission File Number 001-34115

SONUS NETWORKS, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

04-3387074

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

4 Technology Park Drive, Westford, Massachusetts 01886

(Address of principal executive offices) (Zip code)

(978) 614-8100

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 18, 2013, there were 273,495,101 shares of the registrant's common stock, \$0.001 par value, outstanding.

SONUS NETWORKS, INC.
FORM 10-Q
QUARTER ENDED SEPTEMBER 27, 2013
TABLE OF CONTENTS

<u>Item</u>	<u>Page</u>
Cautionary Note Regarding Forward-Looking Statements	3
PART I FINANCIAL INFORMATION	
1. Financial Statements	
Condensed Consolidated Balance Sheets as of September 27, 2013 and December 31, 2012 (unaudited)	4
Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 27, 2013 and September 28, 2012 (unaudited)	5
Condensed Consolidated Statements of Comprehensive Loss for the Three and Nine Months Ended September 27, 2013 and September 28, 2012 (unaudited)	6
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 27, 2013 and September 28, 2012 (unaudited)	7
Notes to Condensed Consolidated Financial Statements (unaudited)	8
2. Management's Discussion and Analysis of Financial Condition and Results of Operations	23
3. Quantitative and Qualitative Disclosures About Market Risk	36
4. Controls and Procedures	37
PART II OTHER INFORMATION	
1. Legal Proceedings	37
1A. Risk Factors	37
2. Unregistered Sales of Equity Securities and Use of Proceeds	53
6. Exhibits	54
Signatures	55
Exhibit Index	56

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, which are subject to a number of risks and uncertainties. All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q, including statements regarding our future results of operations and financial position, business strategy, plans and objectives of management for future operations and plans for future product development and manufacturing are forward-looking statements. Without limiting the foregoing, the words "anticipates", "believes", "could", "estimates", "expects", "intends", "may", "plans", "seeks" and other similar language, whether in the negative or affirmative, are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We therefore caution you against relying on any of these forward-looking statements.

Important factors that could cause actual results to differ materially from those in these forward-looking statements are discussed in Part I, Items 2 and 3, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosures About Market Risk," respectively, and Part II, Item 1A, "Risk Factors," of this Quarterly Report on Form 10-Q. Also, any forward-looking statement made by us in this Quarterly Report on Form 10-Q speaks only as of the date on which this Quarterly Report on Form 10-Q was first filed. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

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

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

	September 27, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 72,385	\$ 88,004
Marketable securities	128,177	161,905
Accounts receivable, net of allowance for doubtful accounts of \$364 at September 27, 2013 and \$0 at December 31, 2012	52,479	68,728
Inventory	22,058	25,614
Deferred income taxes	632	686
Other current assets	14,450	16,520
Total current assets	290,181	361,457
Property and equipment, net	18,756	23,767
Intangible assets, net	11,177	15,237
Goodwill	32,379	32,379
Investments	66,889	29,698
Deferred income taxes	954	1,011
Other assets	7,616	7,191
	\$ 427,952	\$ 470,740
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 16,001	\$ 10,643
Accrued expenses	25,967	26,212
Current portion of deferred revenue	36,556	37,094
Current portion of long-term liabilities	572	763
Total current liabilities	79,096	74,712
Deferred revenue	10,322	11,647
Deferred income taxes	790	249
Convertible subordinated note	2,380	2,380
Other long-term liabilities	4,689	5,706
Total liabilities	97,277	94,694
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Preferred stock, \$0.01 par value per share; 5,000,000 shares authorized, none issued and outstanding	—	—
Common stock, \$0.001 par value per share; 600,000,000 shares authorized; 273,305,861 shares issued and outstanding at September 27, 2013; 280,963,298 shares issued and outstanding at December 31, 2012	273	281
Additional paid-in capital	1,299,029	1,321,385
Accumulated deficit	(974,764)	(952,373)
Accumulated other comprehensive income	6,137	6,753
Total stockholders' equity	330,675	376,046
	\$ 427,952	\$ 470,740

See notes to the unaudited condensed consolidated financial statements.

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

	Three months ended		Nine months ended	
	September 27, 2013	September 28, 2012	September 27, 2013	September 28, 2012
Revenue:				
Product	\$ 40,712	\$ 33,520	\$ 121,447	\$ 107,517
Service	27,387	23,529	79,133	71,481
Total revenue	68,099	57,049	200,580	178,998
Cost of revenue:				
Product	15,415	11,768	42,844	31,988
Service	10,420	12,839	33,662	40,019
Total cost of revenue	25,835	24,607	76,506	72,007
Gross profit	42,264	32,442	124,074	106,991
Operating expenses:				
Research and development	16,566	15,612	52,086	51,094
Sales and marketing	18,291	17,613	58,596	56,339
General and administrative	9,178	7,939	29,621	25,302
Acquisition-related	—	4,090	—	5,057
Restructuring	1,140	1,992	4,787	1,992
Total operating expenses	45,175	47,246	145,090	139,784
Loss from operations	(2,911)	(14,804)	(21,016)	(32,793)
Interest income, net	61	20	289	457
Other income (expense), net	(1)	(2)	2	(2)
Loss before income taxes	(2,851)	(14,786)	(20,725)	(32,338)
Income tax provision	(922)	(833)	(1,666)	(1,444)
Net loss	\$ (3,773)	\$ (15,619)	\$ (22,391)	\$ (33,782)
Loss per share				
Basic	\$ (0.01)	\$ (0.06)	\$ (0.08)	\$ (0.12)
Diluted	\$ (0.01)	\$ (0.06)	\$ (0.08)	\$ (0.12)
Shares used to compute loss per share:				
Basic	279,209	280,145	281,041	279,854
Diluted	279,209	280,145	281,041	279,854

See notes to the unaudited condensed consolidated financial statements.

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

	Three months ended		Nine months ended	
	September 27, 2013	September 28, 2012	September 27, 2013	September 28, 2012
Net loss	\$ (3,773)	\$ (15,619)	\$ (22,391)	\$ (33,782)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(77)	119	(532)	(76)
Unrealized gain (loss) on available-for sale marketable securities, net of tax	188	127	(84)	24
Other comprehensive income (loss), net of tax	111	246	(616)	(52)
Comprehensive loss, net of tax	<u>\$ (3,662)</u>	<u>\$ (15,373)</u>	<u>\$ (23,007)</u>	<u>\$ (33,834)</u>

See notes to the unaudited condensed consolidated financial statements.

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

	Nine months ended	
	September 27, 2013	September 28, 2012
Cash flows from operating activities:		
Net loss	\$ (22,391)	\$ (33,782)
Adjustments to reconcile net loss to cash flows provided by (used in) operating activities:		
Depreciation and amortization of property and equipment	9,591	9,081
Amortization of intangible assets	3,460	904
Impairment of intangible assets	600	—
Stock-based compensation	13,137	6,540
Loss on disposal of property and equipment	23	23
Deferred income taxes	541	—
Changes in operating assets and liabilities:		
Accounts receivable	15,744	13,020
Inventory	3,294	(3,868)
Other operating assets	5,126	(4,998)
Accounts payable	5,134	(1,753)
Accrued expenses and other long-term liabilities	(2,061)	(3,625)
Deferred revenue	(1,664)	(9,624)
Net cash provided by (used in) operating activities	<u>30,534</u>	<u>(28,082)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(4,498)	(7,792)
Business acquisition, net of cash acquired	—	(35,508)
Purchases of marketable securities	(182,534)	(139,917)
Maturities of marketable securities	175,887	200,380
Net cash (used in) provided by investing activities	<u>(11,145)</u>	<u>17,163</u>
Cash flows from financing activities:		
Proceeds from sale of common stock in connection with employee stock purchase plan	1,888	1,693
Proceeds from exercise of stock options	2,393	151
Payment of tax withholding obligations related to net share settlements of restricted stock awards	(1,240)	(169)
Repurchase of common stock	(37,340)	—
Principal payments of capital lease obligations	(91)	(87)
Settlement of redeemable convertible subordinated debentures	—	(23,704)
Net cash used in financing activities	<u>(34,390)</u>	<u>(22,116)</u>
Effect of exchange rate changes on cash and cash equivalents	(618)	192
Net decrease in cash and cash equivalents	(15,619)	(32,843)
Cash and cash equivalents, beginning of year	88,004	105,451
Cash and cash equivalents, end of period	<u>\$ 72,385</u>	<u>\$ 72,608</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 49	\$ 638
Income taxes paid	\$ 1,391	\$ 1,958
Income tax refunds received	\$ 117	\$ 42
Supplemental disclosure of non-cash investing activities:		
Capital expenditures incurred, but not yet paid	\$ 467	\$ 861
Property and equipment acquired under operating lease	\$ —	\$ 40
Business acquisition purchase consideration - assumed equity awards	\$ —	\$ 892

See notes to the unaudited condensed consolidated financial statements.

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

(1) BASIS OF PRESENTATION

Business

Sonus Networks, Inc. ("Sonus" or the "Company") was incorporated in 1997 and is a leading provider of networked solutions for communications service providers (e.g., telecommunications, wireless and cable service providers) and enterprises to help them advance, protect and unify their communications and improve collaboration. Sonus' products include session border controllers, Session Initiation Protocol ("SIP") session management servers, Voice over IP ("VoIP"), switches, SIP application servers, multiprotocol signaling gateways and network analytics tools. Sonus' solutions address the need for communications service providers and enterprises to seamlessly link and leverage multivendor, multiprotocol communications systems and applications across their networks, around the world and in a rapidly changing ecosystem of IP-enabled devices such as smartphones and tablets.

The Company's target customers comprise both communications service providers and enterprises utilizing both direct and indirect sales channels. Customers and prospective customers in the service provider space are traditional and emerging communications providers, including long distance carriers, local exchange carriers, Internet service providers, wireless operators, cable operators, international telephone companies and carriers that provide services to other carriers. Enterprise customers and target enterprise customers include financial institutions, retailers, state and local governments, and other multinational corporations. The Company collaborates with its customers to identify and develop new, advanced services and applications that can help to reduce costs, improve productivity and generate new revenue.

Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting only of normal recurring items, necessary for their fair presentation with accounting principles generally accepted in the United States of America ("GAAP") and with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC").

Interim results are not necessarily indicative of results for a full year or any future interim period. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2012 ("Annual Report") filed with the SEC on March 6, 2013.

On August 24, 2012, the Company completed the acquisition of Network Equipment Technologies, Inc. ("NET"). The financial results of NET are included in the Company's condensed consolidated financial statements for the three and nine months ended September 27, 2013 and for the three and nine months ended September 28, 2012 for the period subsequent to August 24, 2012.

The Company reported acquisition-related expenses of approximately \$967,000 as a component of general and administrative expenses in its Quarterly Report on Form 10-Q for the quarter ended June 29, 2012. The Company is now separately reporting this amount as acquisition-related expenses in the condensed statements of operations included herein.

Significant Accounting Policies

The Company's significant accounting policies are disclosed in Note 2 to the Consolidated Financial Statements included in the Company's Annual Report. There were no material changes to the significant accounting policies during the three or nine months ended September 27, 2013.

Principles of Consolidation

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

SONUS NETWORKS, INC.**Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)*****Use of Estimates and Judgments***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and judgments relied upon in preparing these consolidated financial statements include accounting for business combinations, revenue recognition for multiple element arrangements, inventory valuations, assumptions used to determine the fair value of stock-based compensation, intangible assets and goodwill valuations, including impairments, legal contingencies and recoverability of Sonus' net deferred tax assets and the related valuation allowances. Sonus regularly assesses these estimates and records changes in estimates in the period in which they become known. Sonus bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances. Actual results could differ from those estimates.

Fair Value of Financial Instruments

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

Operating Segments

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

Recent Accounting Pronouncements

On July 18, 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-11, *Presentation of a Liability for an Unrecognized Tax Benefit When a Net Operating Loss Carryforward or Tax Credit Carryforward Exists* ("ASU 2013-11"), which provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss ("NOL") carryforward, a similar tax loss or a tax credit carryforward exists. The FASB's objective in issuing ASU 2013-11 is to eliminate diversity in practice resulting from a lack of guidance on this topic in current GAAP. ASU 2013-11 requires that an entity present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for an NOL carryforward, a similar tax loss or a tax credit unless certain conditions exist. ASU 2013-11 is effective for the Company beginning January 1, 2014. The Company does not expect the adoption of ASU 2013-11 to have an impact on its consolidated financial statements, as the Company currently applies the methodology prescribed by ASU 2013-11.

On March 4, 2013, the FASB issued ASU 2013-05, *Foreign Currency Matters (Topic 830) - Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity* ("ASU 2013-05"), which indicates that the entire amount of a cumulative translation adjustment ("CTA") related to an entity's investment in a foreign entity should be released when there has been either: (a) a sale of a subsidiary or group of net assets within a foreign entity and the sale represents the substantially complete liquidation of the investment in a foreign entity; (b) the loss of a controlling financial interest in an investment in a foreign entity (i.e., the foreign entity is deconsolidated); or (c) the step acquisition of a foreign entity (i.e., when the accounting for an entity has changed from applying the equity method for an investment in a foreign entity to consolidating the foreign entity). ASU 2013-05 does not change the requirement to release a pro rata portion of the CTA of the foreign entity into earnings for a partial sale of an equity method investment in a foreign entity. ASU 2013-05 is effective for the Company beginning January 1, 2014, although early adoption is permitted. The Company does not expect the adoption of ASU 2013-05 to have a material impact on its consolidated financial statements.

On February 5, 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* ("ASU 2013-02"), which requires entities to disclose changes in

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

accumulated other comprehensive income balances by component (i.e., unrealized gains or losses on available-for-sale securities or foreign-currency items) and significant items reclassified out of accumulated other comprehensive income by component either on the face of the income statement or as a separate footnote to the financial statements. ASU 2013-02 does not change the current requirements for interim financial statement reporting of comprehensive income. ASU 2013-02 became effective for the Company on January 1, 2013. The Company does not have significant items reclassified out of accumulated other comprehensive income and accordingly, the adoption of ASU 2013-02 did not impact the Company's condensed consolidated financial statements.

(2) ACQUISITION OF NET

On August 24, 2012 (the "NET Acquisition Date"), the Company acquired all of the outstanding common stock of NET for cash consideration of \$41.5 million, or \$1.35 per share of NET common stock. The acquisition was effected through a merger of a wholly-owned subsidiary of the Company into NET, with NET surviving the merger as a wholly-owned subsidiary of the Company. NET is a provider of networking equipment focused on secure real-time communications for Unified Communications ("UC"), SIP trunking, enterprise mobility and IP-based multi-service networking. The Company acquired NET to enhance its position as an enabler of cloud-based UC. The acquisition of NET expands the Company's portfolio of Session Border Controller ("SBC") solutions for enterprise customers and brings engineering resources, broader channel capability and a broad U.S. federal government installed base to leverage into SIP-enabled platforms.

As of August 24, 2013, the valuation of acquired assets, identifiable intangible assets, uncertain tax liabilities and certain accrued liabilities had been finalized. Based on new information gathered about facts and circumstances that existed as of the NET Acquisition Date related to the valuation of certain acquired assets and assumed liabilities, the Company finalized its valuations of assets acquired and liabilities assumed. The Company recorded retrospective adjustments as of December 31, 2012, which resulted in a net decrease to goodwill of \$1.4 million, a net increase to other current assets of \$0.9 million and a net decrease to current liabilities of \$0.5 million as set forth in the table below. The adjustments have been retrospectively applied to the December 31, 2012 balance sheet; however, these adjustments had no impact on either the condensed consolidated statements of operations or the condensed consolidated statements of cash flows.

During the second quarter of fiscal 2013, the Company made an election under Section 338(g) of the Internal Revenue Code to have the NET transaction treated as an asset acquisition (i.e., a taxable transaction) with the goodwill being deductible for tax purposes over 15 years.

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

Fair value of consideration transferred:	
Cash, net of cash acquired	\$ 35,508
Fair value of equity awards assumed	892
Fair value of total consideration	<u>\$ 36,400</u>
Fair value of assets acquired and liabilities assumed:	
Marketable securities	\$ 5,359
Deferred income taxes	681
Other current assets	13,388
Property and equipment	4,694
Noncurrent investments	10,167
Intangible assets	16,810
Goodwill	27,317
Other noncurrent assets	1,843
Current liabilities	(9,350)
Debt	(34,208)
Other long-term liabilities	(301)
	<u>\$ 36,400</u>

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

The valuation of the acquired intangible assets is inherently subjective and relies on significant unobservable inputs. The Company used an income approach to value the acquired customer relationships and developed technology intangible assets. The valuation for each of these intangible assets was based on estimated projections of expected cash flows to be generated by the assets, discounted to the present value at discount rates commensurate with perceived risk. The valuation assumptions take into consideration the Company's estimates of contract renewal, technology attrition and revenue growth projections. The Company is amortizing the identifiable intangible assets in relation to the expected cash flows from the individual intangible assets over their respective useful lives (see Note 6).

Pro Forma Results

The following unaudited pro forma information presents the condensed combined results of operations of the Company and NET for the three and nine months ended September 28, 2012 as if the acquisition of NET had been completed on January 1, 2011, with adjustments to give effect to pro forma events that are directly attributable to the acquisition. These pro forma adjustments include a reduction to historical NET revenue for the fair value adjustment related to assumed deferred revenue, an increase in amortization expense for the acquired identifiable intangible assets and decreases in historical NET interest expense and the Company's historical interest income reflecting the extinguishment of certain of NET's debt as a result of the acquisition. Subsequent to the filing of the Company's Quarterly Report on Form 10-Q for the quarter ended September 28, 2012, the Company refined the amounts and attribution of certain expenses related to the acquisition and the related purchase accounting and accordingly, the pro forma information below has been revised.

The unaudited pro forma results do not reflect any operating efficiencies or potential cost savings which may result from the consolidation of the operations of the Company and NET. Accordingly, these unaudited pro forma results are presented for illustrative purposes and are not intended to represent or be indicative of the actual results of operations of the combined companies that would have been achieved had the acquisition occurred as of January 1, 2011, nor are they intended to represent or be indicative of future results of operations (in thousands, except per share amount):

	Three months ended September 28, 2012	Nine months ended September 28, 2012
Revenue	\$ 63,369	\$ 207,878
Net loss	\$ (13,496)	\$ (48,765)
Loss per share	\$ (0.05)	\$ (0.17)

Acquisition-Related Expenses

Acquisition-related expenses include those expenses related to the acquisition that would otherwise not have been incurred by the Company. These expenses include professional and services fees, such as legal, audit, consulting, paying agent and other fees, and expenses related to cash payments to former NET executives under their NET change of control agreements.

The components of acquisition-related costs included in the Company's results of operations for the three and nine months ended September 28, 2012 are as follows (in thousands):

	Three months ended September 28, 2012	Nine months ended September 28, 2012
Professional and services fees	\$ 2,048	\$ 3,015
Change of control agreements	2,042	2,042
	<u>\$ 4,090</u>	<u>\$ 5,057</u>

The Company did not record any acquisition-related expenses in either the three or nine months ended September 27, 2013.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(3) EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares outstanding during the period. For periods in which the Company reports net income, diluted net income per share is determined by using the weighted average number of common and dilutive common equivalent shares outstanding during the period unless the effect is antidilutive.

The calculations of shares used to compute basic and diluted loss per share are as follows (in thousands):

	Three months ended		Nine months ended	
	September 27, 2013	September 28, 2012	September 27, 2013	September 28, 2012
Weighted average shares outstanding—basic	279,209	280,145	281,041	279,854
Potential dilutive common shares	—	—	—	—
Weighted average shares outstanding—diluted	279,209	280,145	281,041	279,854

Options to purchase the Company's common stock, unvested shares of restricted stock and unvested performance-based stock awards for which the performance conditions have been satisfied aggregating 35.9 million shares for the three and nine months ended September 27, 2013 have not been included in the computation of diluted loss per share because their effect would have been antidilutive. Options to purchase the Company's common stock and unvested shares of restricted stock aggregating 27.2 million shares for the three and nine months ended September 28, 2012 have not been included in the computation of diluted loss per share because their effect would have been antidilutive.

(4) CASH EQUIVALENTS, MARKETABLE SECURITIES AND INVESTMENTS

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

During the nine months ended September 27, 2013 and September 28, 2012, the Company did not sell any of its available-for-sale securities and accordingly, no such gains or losses were realized.

Marketable securities and investments with continuous unrealized losses for one year or greater at September 27, 2013 were nominal. Since the Company does not intend to sell these securities and does not believe it will be required to sell any securities before they recover in value, it does not believe these declines are other-than-temporary.

On a quarterly basis, the Company reviews its marketable securities and investments to determine if there have been any events that could create a credit impairment. The increase in unrealized losses in the current year period primarily relates to the recent increase in interest rates. However, since the Company's entire investment portfolio has investment grade ratings with no indication of credit loss, the Company believes it will recover the entire amortized cost basis of these securities and does not believe these unrealized losses are other-than-temporary. Accordingly, the Company does not believe that any impairment existed with its current holdings at September 27, 2013.

The amortized cost, gross unrealized gains and losses and fair value of the Company's marketable debt and equity securities and investments at September 27, 2013 and December 31, 2012 were comprised of the following (in thousands):

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

	September 27, 2013			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
<i>Cash equivalents</i>	\$ 33,110	\$ —	\$ —	\$ 33,110
<i>Marketable securities</i>				
U.S. government agency notes	\$ 47,606	\$ 30	\$ —	\$ 47,636
Corporate debt securities	65,241	24	(20)	65,245
Commercial paper	11,240	4	—	11,244
Certificates of deposit	4,050	3	(1)	4,052
	<u>\$ 128,137</u>	<u>\$ 61</u>	<u>\$ (21)</u>	<u>\$ 128,177</u>
<i>Investments</i>				
U.S. government agency notes	\$ 20,471	\$ 8	\$ (3)	\$ 20,476
Foreign government notes	1,250	—	(1)	1,249
Corporate debt securities	45,188	16	(40)	45,164
	<u>\$ 66,909</u>	<u>\$ 24</u>	<u>\$ (44)</u>	<u>\$ 66,889</u>
December 31, 2012				
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
<i>Cash equivalents</i>	\$ 69,389	\$ —	\$ —	\$ 69,389
<i>Marketable securities</i>				
U.S. government agency notes	\$ 53,646	\$ 22	\$ —	\$ 53,668
Foreign government notes	2,000	1	—	2,001
Corporate debt securities	84,047	34	(5)	84,076
Commercial paper	7,492	5	—	7,497
Certificates of deposit	14,650	13	—	14,663
	<u>\$ 161,835</u>	<u>\$ 75</u>	<u>\$ (5)</u>	<u>\$ 161,905</u>
<i>Investments</i>				
U.S. government agency notes	\$ 19,358	\$ 20	\$ —	\$ 19,378
Corporate debt securities	10,306	20	(6)	10,320
	<u>\$ 29,664</u>	<u>\$ 40</u>	<u>\$ (6)</u>	<u>\$ 29,698</u>

The Company's available-for-sale debt securities that are classified as Investments in the condensed consolidated balance sheet mature after one year but within two years or less from the balance sheet date.

Fair Value Hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. The three-tier fair value hierarchy is based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is as follows:

Level 1. Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

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

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

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

The following table shows the fair value of the Company's financial assets at September 27, 2013 and December 31, 2012. These financial assets are comprised of the Company's available-for-sale debt and equity securities and reported under the captions Cash and cash equivalents, Marketable securities and Investments in the consolidated balance sheets (in thousands):

	Total carrying value at September 27, 2013	Fair value measurements at September 27, 2013 using:		
		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>Cash equivalents</i>	\$ 33,110	\$ 33,110	\$ —	\$ —
<i>Marketable securities</i>				
U.S. government agency notes	\$ 47,636	\$ —	\$ 47,636	\$ —
Corporate debt securities	65,245	—	65,245	—
Commercial paper	11,244	—	11,244	—
Certificates of deposit	4,052	—	4,052	—
	<u>\$ 128,177</u>	<u>\$ —</u>	<u>\$ 128,177</u>	<u>\$ —</u>
<i>Investments</i>				
U.S. government agency notes	\$ 20,476	\$ —	\$ 20,476	\$ —
Foreign government notes	1,249	—	1,249	—
Corporate debt securities	45,164	—	45,164	—
	<u>\$ 66,889</u>	<u>\$ —</u>	<u>\$ 66,889</u>	<u>\$ —</u>

	Total carrying value at December 31, 2012	Fair value measurements at December 31, 2012 using:		
		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>Cash equivalents</i>	\$ 69,389	\$ 68,389	\$ 1,000	\$ —
<i>Marketable securities</i>				
U.S. government agency notes	\$ 53,668	\$ —	\$ 53,668	\$ —
Foreign government notes	2,001	—	2,001	—
Corporate debt securities	84,076	—	84,076	—
Commercial paper	7,497	—	7,497	—
Certificates of deposit	14,663	—	14,663	—
	<u>\$ 161,905</u>	<u>\$ —</u>	<u>\$ 161,905</u>	<u>\$ —</u>
<i>Investments</i>				
U.S. government agency notes	\$ 19,378	\$ —	\$ 19,378	\$ —
Corporate debt securities	10,320	—	10,320	—
	<u>\$ 29,698</u>	<u>\$ —</u>	<u>\$ 29,698</u>	<u>\$ —</u>

The Company's marketable securities and investments have been valued on the basis of valuations provided by third-party pricing services, as derived from such services' pricing models. Inputs to the models may include, but are not limited to, reported trades, executable bid and asked prices, broker/dealer quotations, prices or yields of securities with similar characteristics, benchmark curves or information pertaining to the issuer, as well as industry and economic events. The pricing

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

services may use a matrix approach, which considers information regarding securities with similar characteristics to determine the valuation for a security. The Company is ultimately responsible for the condensed consolidated financial statements and underlying estimates. Accordingly, the Company assesses the reasonableness of the valuations provided by the third-party pricing services by reviewing actual trade data, broker/dealer quotes and other similar data, which are obtained from quoted market prices or other sources.

(5) INVENTORY

Inventory consists of the following (in thousands):

	September 27, 2013	December 31, 2012
On-hand final assemblies and finished goods inventories	\$ 18,895	\$ 22,009
Deferred cost of goods sold	5,420	5,704
	24,315	27,713
Less current portion	(22,058)	(25,614)
Noncurrent portion (included in Other assets)	\$ 2,257	\$ 2,099

(6) INTANGIBLE ASSETS AND GOODWILL

The Company's intangible assets at September 27, 2013 and December 31, 2012 consist of the following (dollars in thousands):

<u>September 27, 2013</u>	Weighted average amortization period (years)	Cost	Accumulated amortization	Net carrying value
Intellectual property	5.00	\$ 999	\$ 999	\$ —
Developed technology	5.03	9,080	2,229	6,851
Customer relationships	5.30	6,140	2,280	3,860
Order backlog	0.33	860	860	—
Internal use software	3.00	730	264	466
	4.35	\$ 17,809	\$ 6,632	\$ 11,177

<u>December 31, 2012</u>	Weighted average amortization period (years)	Cost	Accumulated amortization	Net carrying value
Intellectual property	5.00	\$ 2,999	\$ 2,199	\$ 800
Developed technology	5.03	9,080	730	8,350
Customer relationships	5.30	6,140	702	5,438
Order backlog	0.33	860	860	—
Internal use software	3.00	730	81	649
	4.35	\$ 19,809	\$ 4,572	\$ 15,237

Amortization expense for intangible assets for the three and nine months ended September 27, 2013 and September 28, 2012 was as follows (in thousands):

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

	Three months ended		Nine months ended		Statement of operations classification
	September 27, 2013	September 28, 2012	September 27, 2013	September 28, 2012	
Intellectual property	\$ —	\$ 100	\$ 200	\$ 300	Research and development
Developed technology	500	183	1,499	183	Cost of revenue - product
Customer relationships	526	175	1,578	175	Sales and marketing
Order backlog	—	216	—	216	Cost of revenue - product
Internal use software	61	30	183	30	Cost of revenue - product
	\$ 1,087	\$ 704	\$ 3,460	\$ 904	

In connection with the preparation of its financial statements for the second quarter of fiscal 2013, the Company reviewed its intangible assets and other long-lived assets for impairment indicators. The Company determined that a triggering event had occurred relative to one of its intellectual property intangible assets that had been acquired during fiscal 2010. During the three months ended June 28, 2013, the Company discontinued its development of this technology and determined that there were no alternative uses of the technology within either its existing or future product lines. Additionally, based on the age and resulting obsolescence of such technology, the Company concluded that the fair value was nominal based on a discounted cash flow model. As a result, the Company recorded an impairment charge of \$0.6 million in the three months ended June 28, 2013 to write down the carrying value of the asset to zero. This expense is included as a component of research and development expense in the Company's condensed consolidated statements of operations for the nine months ended September 27, 2013. The nonrecurring fair value measurement of the impairment of the intellectual property was categorized in Level 3 of the fair value hierarchy.

Estimated future amortization expense for the Company's intangible assets at September 27, 2013 is as follows (in thousands):

<u>Years ending December 31,</u>	
Remainder of 2013	\$ 1,087
2014	3,235
2015	2,367
2016	1,933
2017	1,900
Thereafter	655
	\$ 11,177

Goodwill is recorded when the consideration for an acquisition exceeds the fair value of net tangible and identifiable intangible assets acquired. Other than the purchase price adjustments discussed in Note 2 and retrospectively recorded as of December 31, 2012, there were no changes to the carrying value of the Company's goodwill in the three or nine months ended September 27, 2013.

The changes in the carrying value of the Company's goodwill in the nine months ended September 28, 2012 were as follows (in thousands):

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

Balance at January 1, 2012:

Goodwill	\$ 8,168
Accumulated impairment losses	(3,106)
	5,062
Acquisition of NET	27,199
Balance at September 28, 2012	<u>\$ 32,261</u>

(7) ACCRUED EXPENSES

Accrued expenses consist of the following (in thousands):

	September 27, 2013	December 31, 2012
Employee compensation and related costs	\$ 16,640	\$ 15,799
Other	9,327	10,413
	<u>\$ 25,967</u>	<u>\$ 26,212</u>

(8) RESTRUCTURING ACCRUAL

On August 7, 2012, the Company announced that it had committed to a restructuring initiative to streamline operations and reduce operating costs by closing and consolidating certain facilities and reducing its worldwide workforce. In connection with this initiative, the Company recorded \$4.8 million of restructuring expense in the nine months ended September 27, 2013, comprised of \$4.5 million for severance and related costs in connection with reducing the Company's workforce and \$0.3 million related to facilities. Of this amount, the Company recorded \$1.2 million in the three months ended September 27, 2013 for severance and related costs; \$1.7 million in the three months ended June 28, 2013, comprised of \$1.4 million for severance and related costs and \$0.3 million for facility costs; and \$1.9 million in the three months ended March 29, 2013, primarily for severance and related costs. The Company had recorded \$7.7 million of restructuring expense in the year ended December 31, 2012, of which \$5.2 million remained accrued at December 31, 2012.

The table below summarizes the restructuring accrual activity for the nine months ended September 27, 2013 (in thousands):

	Balance at January 1, 2013	Initiatives charged to expense	Cash payments	Balance at September 27, 2013
Severance	\$ 1,135	\$ 4,478	\$ (3,435)	\$ 2,178
Facilities	4,100	309	(1,102)	3,307
	<u>\$ 5,235</u>	<u>\$ 4,787</u>	<u>\$ (4,537)</u>	<u>\$ 5,485</u>

The Company expects to complete the restructuring payments related to severance in the fourth quarter of fiscal 2014 and the payments related to facilities in fiscal 2016. The portion of restructuring payments due more than one year from the balance sheet date is included in Other long-term liabilities in the Company's condensed consolidated balance sheets. The long-term portions of accrued restructuring were \$2.1 million at September 27, 2013 and \$2.7 million at December 31, 2012. The Company expects to record restructuring expense of approximately \$2 million in the fourth quarter of fiscal 2013.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(9) DEBT

The Company has determined that the estimated fair value of its \$2.4 million of aggregate principal amount of outstanding debt due in 2014 equaled its carrying value at both September 27, 2013 and December 31, 2012. Although the debt can be publicly traded, there have been no trading transactions since 2010 and accordingly, the Company has categorized it in Level 2 within the fair value hierarchy.

(10) STOCKHOLDER RIGHTS PLAN

On June 21, 2013, the Company entered into an amendment to its stockholder rights agreement, as amended (the "Rights Plan"), to extend the expiration date of the rights in such Rights Plan from June 26, 2013 to June 26, 2015. The amendment was not in response to any acquisition proposal and no other amendments were made to the Rights Plan. The Rights Plan was originally adopted on June 26, 2008 and subsequently extended to June 26, 2013 on June 10, 2011.

Under the Rights Plan, preferred stock purchase rights (the "Rights") were distributed as a dividend at the rate of one Right per share of common stock held by stockholders of record as of the close of business on July 7, 2008. Each Right entitles the stockholder to purchase from the Company a unit consisting of one one-thousandth of a share (a "Unit") of preferred stock at a purchase price of \$25.00, subject to adjustment.

The Rights generally will be exercisable only if a person or group acquires beneficial ownership of 15% or more of the Company's common stock (which includes for this purpose shares of common stock referenced in derivative transactions or securities), or commences or publicly announces a tender or exchange offer upon consummation of which they would beneficially own 15% or more of the Company's common stock. Subject to certain conditions, a person or group who beneficially owned 15% or more of the outstanding shares of the Company's common stock prior to the adoption of the Rights Plan did not cause the Rights to become exercisable upon adoption of the Rights Plan. Should the Rights become exercisable, the effect would be to dilute the ownership of the beneficial owner(s) who triggered the Rights, as that beneficial owner or group of owners would not receive the Units.

(11) COMMON STOCK REPURCHASES

On July 29, 2013, the Company announced that its Board of Directors had authorized a stock buyback program to repurchase up to \$100 million of the Company's common stock from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares repurchased will be determined by the Company's management based on its evaluation of market conditions and other factors. The Company may elect to implement a 10b5-1 repurchase program, which would permit shares to be repurchased when the Company might otherwise be precluded from doing so under insider trading laws. The buyback program may be suspended or discontinued at any time. The buyback program is being funded using the Company's working capital.

During both the three and nine months ended September 27, 2013, the Company spent \$37.3 million, including transaction fees, to repurchase and retire 10.8 million shares of its common stock under the buyback program.

(12) STOCK-BASED COMPENSATION PLANS

The Company's 2007 Stock Incentive Plan, as amended, (the "2007 Plan"), provides for the award of options to purchase the Company's common stock ("stock options"), stock appreciation rights ("SARs"), restricted common stock ("restricted stock"), performance-based awards, restricted stock units ("RSUs") and other stock-based awards to employees, officers, directors (including those directors who are not employees or officers of the Company), consultants and advisors of the Company and its subsidiaries. At its June 12, 2013 annual meeting of stockholders, the Company's stockholders approved an amendment to the 2007 Plan, which increased the number of shares available for future grant by 21 million shares.

The Company's 2008 Stock Incentive Plan provides for the award of stock options, SARs, restricted stock, performance-based awards and RSUs to former employees of NET who subsequently became employees of Sonus and Sonus employees hired subsequent to the NET Acquisition Date.

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

In March 2013, 21 executives of the Company, including Raymond P. Dolan, the Company's President and Chief Executive Officer ("Mr. Dolan"), elected to receive bonuses with respect to fiscal 2013 (collectively, the "2013 Bonus"), if any are earned, in the form of shares of the Company's common stock (collectively, the "2013 Bonus Shares"). The 2013 Bonus Shares, if any are granted, will be granted on a date concurrent with the timing of normal 2013 bonus payouts and will be fully vested as of the date of grant, with the number of 2013 Bonus Shares calculated by dividing amounts equal to 1.5 times the respective 2013 Bonus amounts earned, as determined by the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") by the closing price of the Company's common stock on the date of grant. The Company is recording stock-based compensation expense for the 2013 Bonus Shares commensurate with the expected achievement level represented by the Company's accrual for its company-wide cash bonus program, as the performance metrics for each are consistent. Because no shares have been granted in connection with the 2013 Bonus, there are no shares related to the 2013 Bonus reported in the restricted stock grant table below.

On February 15, 2013, Mr. Dolan elected to accept restricted shares of the Company's common stock in lieu of his base salary for the period from January 1, 2013 through December 31, 2013. Mr. Dolan had previously not received any salary payments from the Company for this period. On February 15, 2013, the Company granted Mr. Dolan 183,824 shares of restricted common stock (the "Salary Shares") having a total grant date fair value of \$500,000, equal to Mr. Dolan's base salary for the year ending December 31, 2013. The number of shares was calculated by dividing Mr. Dolan's base salary for the year by \$2.72, the closing price of the Company's common stock on the date of grant. The Salary Shares will vest on December 31, 2013. If Mr. Dolan's employment is terminated by Mr. Dolan with Good Reason (as defined in his employment agreement, as amended) or his employment is terminated by the Company without Cause (as defined in his employment agreement, as amended) before December 31, 2013, a pro rata portion of the Salary Shares will vest on the date of such termination. If Mr. Dolan terminates his employment without Good Reason or his employment is terminated by the Company for Cause before December 31, 2013, he will forfeit the Salary Shares. The Company is recording stock-based compensation expense related to the Salary Shares ratably for the period of January 1, 2013 through December 31, 2013. The Salary Shares are included in the amount reported as "Granted" in the restricted stock grant table below.

On February 14, 2013, the Compensation Committee determined that eight executives of the Company, excluding Mr. Dolan, would receive their bonuses with respect to fiscal 2012 in the form of restricted shares of the Company's common stock equal to 100% of their respective target bonus amounts for fiscal 2012 (collectively, the "Executive Bonus Shares"). The number of shares granted to each executive was calculated by dividing his/her target bonus amount by the closing price of the Company's common stock on February 15, 2013, the date of grant. The Executive Bonus Shares vested 50% on August 15, 2013 and the remaining 50% will vest on February 15, 2014, contingent upon each such executive's continued employment with the Company on the last vesting date. The Company had accrued for the cash payment of bonuses at the expected company-wide cash payout percentage amount at December 31, 2012, which amounts were less than the target bonus amounts for each individual. The Company is recording the unamortized expense related to the Executive Bonus Shares as stock-based compensation expense through February 15, 2014. These shares are reported as "Granted" in the restricted stock grant table below.

On August 7, 2012, Mr. Dolan elected to receive his fiscal year 2012 bonus, if earned, in the form of restricted shares of the Company's common stock (the "Dolan Bonus Shares"). On August 10, 2012, the Company granted Mr. Dolan 421,348 Dolan Bonus Shares, which equaled Mr. Dolan's potential 2012 bonus at the maximum level of achievement (150% of Mr. Dolan's annual base salary), divided by \$1.78, the closing price of the Company's common stock on the date of grant. During fiscal 2012, the Company recorded stock-based compensation expense for the Dolan Bonus Shares commensurate with the expected achievement level represented by the Company's accrual for its company-wide cash bonus program, as the performance metrics for each were consistent. The Dolan Bonus Shares represented the performance-based stock award shares reported as "Unvested balance at January 1, 2013" in the performance-based stock awards table below. On February 14, 2013, the Compensation Committee determined that Mr. Dolan had earned 280,899 Dolan Bonus Shares, of which 50% vested on August 15, 2013 and the remaining 50% will vest on February 15, 2014, subject to Mr. Dolan's continued employment with the Company on the last vesting date. The Company is recording the unamortized expense related to the Dolan Bonus Shares, including incremental expense arising from the modification of this award, through February 15, 2014. Mr. Dolan forfeited the remaining 140,449 Dolan Bonus Shares on February 14, 2013, and these shares are reported as "Forfeited" in the performance-based stock awards table below.

Certain members of the Company's Board of Directors elected to receive their annual cash retainer in shares of the

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

Company's common stock in lieu of cash payments. Accordingly, the Company granted approximately 73,000 shares in the aggregate under the 2007 Plan to such members of the Board of Directors, of which approximately 40,000 shares were granted on February 15, 2013 and approximately 33,000 shares were granted on June 17, 2013. All such shares vested immediately. The shares are reported as both "Granted" and "Vested" in the restricted stock grants table below.

Stock Options

The activity related to the Company's outstanding stock options during the nine months ended September 27, 2013 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2013	25,116,398	\$ 3.46		
Granted	13,043,856	\$ 2.92		
Exercised	(1,166,397)	\$ 2.01		
Forfeited	(1,398,660)	\$ 2.62		
Expired	(2,312,336)	\$ 4.78		
Outstanding at September 27, 2013	33,282,861	\$ 3.25	7.21	\$ 16,860
Vested or expected to vest at September 27, 2013	30,487,280	\$ 3.29	7.02	\$ 15,294
Exercisable at September 27, 2013	14,228,903	\$ 3.85	4.76	\$ 5,694

The grant date fair values of options to purchase common stock granted in the three and nine months ended September 27, 2013 were estimated using the Black-Scholes valuation model with the following assumptions:

	Three months ended September 27, 2013	Nine months ended September 27, 2013
Risk-free interest rate	1.51% - 1.71%	0.82% - 1.71%
Expected dividends	—	—
Weighted average volatility	57.6%	63.2%
Expected life (years)	4.5	4.5 - 6.0

Additional information regarding the Company's stock options for the three and nine months ended September 27, 2013 is as follows:

	Three months ended September 27, 2013	Nine months ended September 27, 2013
Weighted average grant date fair value of stock options granted	\$ 1.58	\$ 1.49
Total intrinsic value of stock options exercised (in thousands)	\$ 398	\$ 1,185
Cash received from the exercise of stock options (in thousands)	\$ 1,056	\$ 2,393

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

Restricted Stock Grants - Restricted Stock Awards and Restricted Stock Units

The Company's outstanding restricted stock grants consist of both restricted stock awards and RSUs. The activity related to the Company's unvested restricted stock grants for the nine months ended September 27, 2013 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested balance at January 1, 2013	617,203	\$ 2.45
Granted	1,334,086	\$ 2.82
Vested	(634,514)	\$ 2.56
Forfeited	(54,039)	\$ 2.66
Unvested balance at September 27, 2013	<u>1,262,736</u>	<u>\$ 2.77</u>

The total fair value of restricted stock grant shares that vested during the nine months ended September 27, 2013 was \$1.6 million.

Performance-Based Stock Awards

The activity related to the Company's performance-based stock awards for the nine months ended September 27, 2013 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested balance at January 1, 2013	421,348	\$ 1.78
Granted	1,984,500	\$ 2.72
Vested	(954,292)	\$ 2.58
Forfeited	(140,449)	\$ 1.78
Unvested balance at September 27, 2013	<u>1,311,107</u>	<u>\$ 2.62</u>

On February 14, 2013, the Compensation Committee took certain actions regarding performance-based stock awards that had been awarded in previous years but for which the grant date criteria had not been met as of December 31, 2012. These actions included determining that a certain number of these performance-based shares would vest as of February 15, 2013 (the "Vested Performance Shares") and subjecting the remaining performance-based shares (the "Future Performance Shares") to further performance and service conditions. Accordingly, as of February 15, 2013 the grant date criteria were met for both the Vested Performance Shares and the Future Performance Shares and they are reported as "Granted" in the table above. The performance conditions relate to either a portion of or the full fiscal 2013 year and the service conditions were implemented through vesting schedules individually assigned to each Future Performance Share award that provide for service-based vesting through fiscal 2015. On July 26, 2013, the Compensation Committee determined that the performance conditions related to the Future Performance Shares had been satisfied based on the Company's performance for the six months ended June 28, 2013 and accordingly, all of the Future Performance Shares will vest contingent upon continued employment with the Company on the vesting dates. The Company had previously estimated that the conditions related to the Future Performance Shares would be satisfied by June 28, 2013 and had recorded expense in the first and second quarters of 2013 based on that estimate. The Company is recording the unamortized expense related to the Future Performance Shares based on the vesting dates of the respective awards.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

Stock-Based Compensation

The condensed consolidated statements of operations include stock-based compensation for the three and nine months ended September 27, 2013 and September 28, 2012 as follows (in thousands):

	Three months ended		Nine months ended	
	September 27, 2013	September 28, 2012	September 27, 2013	September 28, 2012
Product cost of revenue	\$ 46	\$ 41	\$ 128	\$ 130
Service cost of revenue	299	211	761	595
Research and development	903	524	2,402	1,773
Sales and marketing	1,313	500	3,631	1,458
General and administrative	1,812	1,124	6,215	2,584
	<u>\$ 4,373</u>	<u>\$ 2,400</u>	<u>\$ 13,137</u>	<u>\$ 6,540</u>

There is no income tax benefit for employee stock-based compensation expense for the three and nine months ended September 27, 2013 or September 28, 2012 due to the valuation allowance recorded.

At September 27, 2013, there was \$26.7 million, net of expected forfeitures, of unrecognized stock-based compensation expense related to unvested stock options and restricted stock awards. This expense is expected to be recognized over a weighted average period of approximately three years.

(13) MAJOR CUSTOMERS

The following customers each contributed 10% or more of the Company's revenue in at least one of the three or nine month periods ended September 27, 2013 and September 28, 2012:

	Three months ended		Nine months ended	
	September 27, 2013	September 28, 2012	September 27, 2013	September 28, 2012
AT&T Inc.	18%	*	17%	24%
Level 3 Communications	*	12%	*	*

* Represents less than 10% of revenue

At September 27, 2013, one customer accounted for 10% or more of the Company's accounts receivable balance, representing approximately 21% of the Company's accounts receivable balance. At December 31, 2012, one customer accounted for 10% or more of the Company's accounts receivable balance, representing approximately 25% of the Company's accounts receivable balance. The Company performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable. The Company maintains an allowance for doubtful accounts and such losses have been within management's expectations.

SONUS NETWORKS, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(14) GEOGRAPHIC INFORMATION

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

	Three months ended		Nine months ended	
	September 27, 2013	September 28, 2012	September 27, 2013	September 28, 2012
United States	66%	76%	70%	75%
Europe, Middle East and Africa	15	13	12	10
Japan	8	*	11	9
Other Asia Pacific	7	10	5	5
Other	4	1	2	1
	100%	100%	100%	100%

* Represents less than 1% of revenue

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

(15) INCOME TAXES

The Company's income tax provisions for the nine months ended September 27, 2013 and September 28, 2012 reflect the Company's estimates of the effective rates expected to be applicable for the respective full years, adjusted for any discrete events, which are recorded in the period that they occur. These estimates are reevaluated each quarter based on the Company's estimated tax expense for the full year. The estimated effective rates for the nine months ended September 27, 2013 and September 28, 2012 do not include any benefit for the Company's domestic losses, as the Company has concluded that a valuation allowance on any domestic benefit is required.

In September 2013, the U.S. Department of the Treasury and the Internal Revenue Service released final regulations relating to guidance on applying tax rules to amounts paid to acquire, produce or improve tangible personal property as well as rules for materials and supplies. The Company is currently assessing these rules and the impact they will have on its consolidated financial statements, if any.

(16) COMMITMENTS AND CONTINGENCIES

The Company is often a party to disputes and legal proceedings that it considers routine and incidental to its business. In the normal course of business, the Company enters into contractual commitments to purchase services, materials, components, and finished goods from suppliers. Under agreements with certain contract manufacturers, the Company may be liable for purchased raw materials procured for the Company by the applicable contract manufacturer. Management does not expect the results of any of these actions to have a material effect on the Company's business or consolidated financial statements.

(17) SUBSEQUENT EVENTS

On October 24, 2013, Mark T. Greenquist accepted an offer of employment as Chief Financial Officer of the Company, effective November 1, 2013.

On October 29, 2013, Maurice L. Castonguay resigned as Senior Vice President and Chief Financial Officer, effective November 1, 2013.

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

The following discussion of the financial condition and results of operations of Sonus Networks, Inc. should be read in

conjunction with the condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the audited financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2012, which was filed with the U.S. Securities and Exchange Commission on March 6, 2013.

Overview

We are a leading provider of networked solutions for communications service providers (e.g., telecommunications, wireless and cable service providers) and enterprises to help them advance, protect and unify their communications and improve collaboration. Our products include session border controllers, Session Initiation Protocol ("SIP") session management servers, Voice over IP ("VoIP") switches, SIP application servers, multiprotocol signaling gateways and network analytics tools. Our solutions address the need for communications service providers and enterprises to seamlessly link and leverage multivendor, multiprotocol communications systems and applications across their networks, around the world and in a rapidly changing ecosystem of IP-enabled devices such as smartphones and tablets.

Currently, we sell our products principally through a direct sales force into the service provider market in the United States, Europe, Asia-Pacific and the Middle East and through indirect channel partners for the enterprise market. We continue to expand our presence into new geographies and markets through our relationships with regional channel partners. In May 2012, we implemented our indirect sales channel program, which is focused primarily on enterprise customers, to capture a larger percentage of the Session Border Controller ("SBC") and Unified Communications markets into the enterprise market.

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

We continue to focus on the key elements of our strategy, which is designed to capitalize on our technology and market lead, and build a premier franchise in multimedia infrastructure solutions. We are currently focusing our major efforts on the following aspects of our business:

- expanding our solutions to address emerging Unified Communication and IP-based markets, such as SBC, in the enterprise and service provider markets;
- embracing the principles outlined by 3GPP, 4GPP2 and LTE architectures and delivering the industry's most advanced IMS (IP Multimedia Subsystem)-ready SBC product suite;
- leveraging our TDM (time division multiplexing)-to-IP gateway technology leadership with service providers to accelerate adoption of SIP-enabled Unified Communication services;
- expanding and broadening our customer base by targeting the enterprise for SIP and VoIP access solutions;
- expanding our global sales distribution, marketing and support capabilities;
- actively contributing to the SIP standards definition and adoption process; and
- pursuing strategic go to market partnerships and alliances.

On August 24, 2012, we completed the acquisition of Network Equipment Technologies, Inc. ("NET"), a Delaware corporation. The financial results of NET are included in our financial results for the three and nine months ended September 27, 2013 and in the three and nine months ended September 28, 2012 subsequent to August 24, 2012.

We reported losses from operations of \$2.9 million for the three months ended September 27, 2013 and \$14.8 million for the three months ended September 28, 2012. We reported losses from operations of \$21.0 million for the nine months ended September 27, 2013 and \$32.8 million for the nine months ended September 28, 2012.

We reported net losses of \$3.8 million for the three months ended September 27, 2013 and \$15.6 million for the three months ended September 28, 2012. We reported net losses of \$22.4 million for the nine months ended September 27, 2013 and \$33.8 million for the nine months ended September 28, 2012.

Our revenue was \$68.1 million in the three months ended September 27, 2013 and \$57.0 million in the three months ended September 28, 2012. Our revenue was \$200.6 million in the nine months ended September 27, 2013 and \$179.0 million in the nine months ended September 28, 2012.

Our gross profit was \$42.3 million in the three months ended September 27, 2013, \$32.4 million in the three months ended September 28, 2012, \$124.1 million in the nine months ended September 27, 2013 and \$107.0 million in the nine months ended September 28, 2012. Our gross profit as a percentage of revenue ("total gross margin") was 62.1% in the three months ended September 27, 2013, 56.9% in the three months ended September 28, 2012, 61.9% in the nine months ended September 27, 2013 and 59.8% in the nine months ended September 28, 2012.

Our operating expenses were \$45.2 million in the three months ended September 27, 2013, compared to \$47.2 million in the three months ended September 28, 2012. Our operating expenses were \$145.1 million in the nine months ended September 27, 2013, compared to \$139.8 million in the nine months ended September 28, 2012. Our operating expenses in the current year periods include restructuring expense of \$1.2 million in the three months ended September 27, 2013 and \$4.8 million in the nine months ended September 27, 2013. Our operating expenses in both the three and nine months ended September 28, 2012 include \$2.0 million of restructuring expenses. Our operating expenses include acquisition-related expenses of \$4.1 million in the three months ended September 28, 2012 and \$5.1 million in the nine months ended September 28, 2012.

We recorded stock-based compensation expense of \$4.4 million in the three months ended September 27, 2013 and \$2.4 million in the three months ended September 28, 2012. We recorded stock-based compensation expense of \$13.1 million in the nine months ended September 27, 2013 and \$6.5 million in the nine months ended September 28, 2012. The stock-based compensation actions described below increased stock-based compensation expense while reducing cash salary and bonus expenses in the three and nine months ended September 27, 2013, and we expect a similar effect throughout the remainder of fiscal 2013.

Lower portfolio yield on our investments, coupled with lower amounts invested in cash equivalents and marketable securities, resulted in lower interest income, which was also a factor in our current year three and nine month period losses, as was higher interest expense related to the subordinated notes assumed in connection with the NET acquisition.

See "Results of Operations" in this Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of these changes in our revenue and expenses.

On October 24, 2013, Mark T. Greenquist accepted an offer of employment as Chief Financial Officer of the Company, effective November 1, 2013.

On October 9, 2013, we announced the Sonus SBC SWe, the industry's first software-based SBC that delivers unlimited scalability with the same advanced features and functionality found on our Sonus SBC 500 series on a virtualized platform. The Sonus SBC SWe addresses service providers' requirements for network functions virtualization and software-defined networking-enabled SBC technology to scale cloud-based delivery platforms. We believe that the SBC SWe will allow our customers to move seamlessly between hardware and software solutions with assurance that their existing communications and network investments are fully protected.

On September 4, 2013, we announced that Pamela D.A. Reeve had been appointed to our Board of Directors, expanding our Board to nine directors.

In August 2012, we announced that we were implementing a restructuring initiative to streamline operations and reduce our operating costs. In connection with this restructuring plan, we recorded \$1.2 million of expense in the three months ended September 27, 2013 for severance and related costs and \$4.8 million of expense in the nine months ended September 27, 2013, comprised of \$4.5 million for severance and related costs and \$0.3 million related to facilities.

On July 29, 2013, we announced that Maurice L. Castonguay, our Senior Vice President and Chief Financial Officer ("Mr. Castonguay"), plans to leave the Company. To facilitate an orderly transition of his duties and responsibilities, Mr. Castonguay and the Company entered into a letter agreement on July 26, 2013 under which Mr. Castonguay agreed to remain with the Company through March 31, 2014. Under the July 26, 2013 letter agreement, Mr. Castonguay agreed to continue to perform the duties and responsibilities of his current roles as Senior Vice President, Chief Financial Officer, Treasurer and Principal Accounting Officer of the Company until the earlier of (i) the time that his successor is hired, at which time Mr. Castonguay agreed to relinquish his current positions and provide transition services at the Company's request in the role of Senior Consultant - Finance through March 31, 2014 and (ii) March 31, 2014. On October 29, 2013, Maurice L. Castonguay resigned as Senior Vice President and Chief Financial Officer, effective November 1, 2013.

On July 29, 2013, we announced that Matthew Dillon would step down as Senior Vice President, Global Services and Systems Management, effective August 15, 2013.

In March 2013, 21 of our executives including Raymond P. Dolan, our President and Chief Executive Officer ("Mr. Dolan") elected to receive bonuses with respect to fiscal 2013 (collectively, the "2013 Bonus"), if any are earned, in the form of shares of our common stock (collectively, the "2013 Bonus Shares"). The 2013 Bonus Shares, if any are granted, will be granted on a date concurrent with the timing of normal 2013 bonus payouts and will be fully vested as of the date of grant, with the number of 2013 Bonus Shares calculated by dividing amounts equal to 1.5 times the respective 2013 Bonus amounts earned, as determined by the Compensation Committee of our Board of Directors (the "Compensation Committee") by the closing price of our common stock on the date of grant. We are recording stock-based compensation expense for the 2013 Bonus Shares commensurate with the expected achievement level represented by the accrual for our company-wide cash bonus program, as the performance metrics for each are consistent.

On February 15, 2013, Mr. Dolan elected to accept restricted shares of our common stock in lieu of his base salary for the period from January 1, 2013 through December 31, 2013. Mr. Dolan had previously not received any salary payments from us for this period. On February 15, 2013, we granted Mr. Dolan 183,824 shares of restricted common stock (the "Salary Shares") having a total grant date fair of \$500,000, equal to Mr. Dolan's base salary for the year ending December 31, 2013. The number of shares was calculated by dividing Mr. Dolan's base salary for the year by \$2.72, the closing price of our common stock on the date of grant. The Salary Shares will vest on December 31, 2013. If Mr. Dolan's employment is terminated by Mr. Dolan with Good Reason (as defined in his employment agreement, as amended) or by us without Cause (as defined in his employment agreement, as amended) before December 31, 2013, a pro rata portion of the Salary Shares will vest on the date of such termination. If Mr. Dolan terminates his employment without Good Reason or we terminate his employment for Cause before December 31, 2013, he will forfeit the Salary Shares. We are recording stock-based compensation expense related to the Salary Shares ratably for the period from January 1, 2013 through December 31, 2013.

On February 14, 2013, the Compensation Committee determined that eight of our executives, excluding Mr. Dolan, would receive their bonuses with respect to fiscal 2012 in the form of restricted shares of our common stock equal to 100% of their respective target bonus amounts for fiscal 2012 (collectively, the "Executive Bonus Shares"). The number of shares granted to each executive was calculated by dividing his/her target bonus amount by the closing price of our common stock on February 15, 2013, the date of grant. The Executive Bonus Shares vested 50% on August 15, 2013 and the remaining 50% will vest on February 15, 2014, contingent upon each such executive's continued employment with us on the final vesting date. We had accrued for the cash payment of bonuses at the expected company-wide cash payout percentage amount at December 31, 2012, which amounts were less than the target bonus amounts for each individual. We are recording the unamortized expense related to the Executive Bonus Shares as stock-based compensation expense through February 15, 2014.

On August 7, 2012, Mr. Dolan elected to receive his fiscal year 2012 bonus, if earned, in the form of restricted shares of our common stock (the "Dolan Bonus Shares"). On August 10, 2012, we granted Mr. Dolan 421,348 Dolan Bonus Shares, which equaled Mr. Dolan's potential 2012 bonus at the maximum level of achievement (150% of Mr. Dolan's annual base salary), divided by \$1.78, the closing price of our common stock on the date of grant. During fiscal 2012, we recorded stock-based compensation expense for the Dolan Bonus Shares commensurate with the expected achievement level represented by the accrual for our company-wide cash bonus program, as the performance metrics for each were consistent. On February 14, 2013, the Compensation Committee determined that Mr. Dolan had earned 280,899 Dolan Bonus Shares, of which 50% vested on August 15, 2013 and the remaining 50% will vest on February 15, 2014, subject to Mr. Dolan's continued employment with us on the final vesting date. Mr. Dolan forfeited the remaining 140,449 Dolan Bonus Shares on February 14, 2013. We are recording the unamortized expense related to the Dolan Bonus Shares, including incremental expense arising from the modification of this award, through February 15, 2014.

Certain members of our Board of Directors elected to receive their annual cash retainer in shares of our common stock in lieu of cash payments. Accordingly, we granted approximately 73,000 shares in the aggregate under the 2007 Plan, with a total grant date fair value approximating \$220,000, to such members of the Board of Directors, of which approximately 40,000 shares were granted on February 15, 2013 and approximately 33,000 shares were granted on June 17, 2013. All such shares vested immediately.

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates and judgments on historical experience, knowledge of current conditions and beliefs of what could occur in the future given available information. We consider the following accounting policies to be both

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

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

For a further discussion of our critical accounting policies and estimates, please refer to our Annual Report on Form 10-K for the fiscal year ended December 31, 2012. There were no significant changes to our critical accounting policies from December 31, 2012 through September 27, 2013.

Results of Operations

Three and nine months ended September 27, 2013 and September 28, 2012

Revenue. Revenue for the three and nine months ended September 27, 2013 and September 28, 2012 was as follows (in thousands, except percentages):

	Three months ended		Increase from prior year	
	September 27, 2013	September 28, 2012	\$	%
Product	\$ 40,712	\$ 33,520	\$ 7,192	21.5%
Service	27,387	23,529	3,858	16.4%
Total revenue	\$ 68,099	\$ 57,049	\$ 11,050	19.4%

	Nine months ended		Increase from prior year	
	September 27, 2013	September 28, 2012	\$	%
Product	\$ 121,447	\$ 107,517	\$ 13,930	13.0%
Service	79,133	71,481	7,652	10.7%
Total revenue	\$ 200,580	\$ 178,998	\$ 21,582	12.1%

Product revenue is comprised of sales of our communication infrastructure products. The products typically incorporated into our trunking and communication application solutions include our GSX9000 and GSX4000 Open Services Switches and our ASX Voice Application Server. The products typically incorporated into our SBC solutions include our SBC 9000 (formerly the NBS 9000), SBC 5200 (formerly the NBS 5200) and our SBC 5100, SBC 5110 and SBC 5210 Session Border Controllers. On October 9, 2013, we announced the Sonus SBC SWe, the industry's first software-based SBC that delivers unlimited scalability with the same advanced features and functionality found on our Sonus SBC 5000 series on a virtualized platform.

Additionally, in connection with our acquisition of NET, we began selling the SBC 1000 (formerly the NET UX 1000), the SBC 2000 (formerly the NET UX 2000) and the SBC VX, a hybrid solution (formerly the NET VX). The SBC 1000 provides SBC SIP communication capability to the enterprise branch and small and medium businesses, while the SBC 2000 provides SBC SIP communication capability to the enterprise branch and medium to large businesses. The SBC VX is a hybrid solution sold to small, medium and large enterprises that require a hybrid solution. Certain of our products may be incorporated into either our trunking and communication applications or SBC solutions; these products include, but are not limited to, our PSX Policy & Routing Server, SGX Signaling Gateway, Sonus Insight Management System, ASX Access Gateway Control Function and our suite of network analytical products.

Product revenue for the three and nine months ended September 27, 2013 and September 28, 2012 was comprised of the following (in thousands, except percentages):

	Three months ended		Increase (decrease) from prior year	
	September 27, 2013	September 28, 2012	\$	%
	Trunking and communication applications	\$ 19,401	\$ 13,126	\$ 6,275
SBC	21,311	20,394	917	4.5%
	<u>\$ 40,712</u>	<u>\$ 33,520</u>	<u>\$ 7,192</u>	<u>21.5%</u>

	Nine months ended		Increase (decrease) from prior year	
	September 27, 2013	September 28, 2012	\$	%
	Trunking and communication applications	\$ 56,177	\$ 60,449	\$ (4,272)
SBC	65,270	47,068	18,202	38.7%
	<u>\$ 121,447</u>	<u>\$ 107,517</u>	<u>\$ 13,930</u>	<u>13.0%</u>

We recognized \$6.4 million of product revenue in the aggregate from 171 new customers in the three months ended September 27, 2013 and \$1.8 million of product revenue in the aggregate from 40 new customers in the three months ended September 28, 2012. We recognized \$12.2 million of product revenue in the aggregate from 524 new customers in the nine months ended September 27, 2013 and \$4.8 million of product revenue in the aggregate from 50 new customers in the nine months ended September 28, 2012. The increase in new customers in the three and nine months ended September 27, 2013 compared to the prior year periods is primarily attributable to customers who purchased products from the former NET product portfolio. The NET products generally have a lower purchase price compared to the larger-scale Sonus products and projects. New customers are those from whom we recognize revenue for the first time in a reporting period, although we may have had outstanding orders from such customers for several years, especially for certain multi-year projects. The timing of the completion of customer projects, revenue recognition criteria satisfaction and customer payments included in multiple element arrangements may cause our product revenue to fluctuate from one period to the next.

As we had anticipated as a result of the transition of our customers and our business to SBC, our revenue from sales of our trunking and communication application products decreased in the nine months ended September 27, 2013 compared to the nine months ended September 28, 2012. This decline was offset by the growth in sales of our SBC products in the current year period compared to the same prior year period. However, revenue from sales of our trunking and communication application products increased in the three months ended September 27, 2013 compared to the three months ended September 28, 2012, primarily attributable to multiple capacity and expansion orders from several customers in the current year quarter. We believe that in future quarters the decrease in sales from our trunking and communication application products will resume as previously anticipated. We expect that our product revenue in fiscal 2013 will increase from fiscal 2012 levels, primarily due to increased sales of our SBC products resulting from our continued and increasing focus on expanding our solutions to address emerging Unified Communication and IP-based markets, such as SBC, in the enterprise and service provider markets.

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

Service revenue for the three and nine months ended September 27, 2013 and September 28, 2012 was comprised of the following (in thousands, except percentages):

	Three months ended		Increase from prior year	
	September 27, 2013	September 28, 2012	\$	%
	Maintenance	\$ 21,500	\$ 18,665	\$ 2,835
Professional services	5,887	4,864	1,023	21.0%
	<u>\$ 27,387</u>	<u>\$ 23,529</u>	<u>\$ 3,858</u>	<u>16.4%</u>

	Nine months ended		Increase from prior year	
	September 27, 2013	September 28, 2012	\$	%
	Maintenance	\$ 63,191	\$ 55,994	\$ 7,197
Professional services	15,942	15,487	455	2.9%
	<u>\$ 79,133</u>	<u>\$ 71,481</u>	<u>\$ 7,652</u>	<u>10.7%</u>

Our increased maintenance revenue in both current year periods compared to the prior year periods is primarily due to our larger installed customer base, which is partially a result of the acquisition of NET. The timing of the completion of projects for revenue recognition, customer payments and maintenance contracts may cause our services revenue to fluctuate from one period to the next. We expect that our service revenue in fiscal 2013 will increase from fiscal 2012 levels as a result of our larger installed customer base.

The following customers each contributed 10% or more of our revenue in at least one of the three or nine month periods ended September 27, 2013 and September 28, 2012:

Customer	Three months ended		Nine months ended	
	September 27, 2013	September 28, 2012	September 27, 2013	September 28, 2012
AT&T Inc.	18%	*	17%	24%
Level 3 Communications	*	12%	*	*

* Represents less than 10% of revenue

International revenue was approximately 34% of revenue in the three months ended September 27, 2013 and approximately 24% of revenue in the three months ended September 28, 2012. International revenue was approximately 30% of revenue in the nine months ended September 27, 2013 and approximately 25% of revenue in the nine months ended September 28, 2012. Due to the timing of project completions, we expect that the domestic and international components as a percentage of our revenue will fluctuate from quarter to quarter and year to year.

Our deferred product revenue was \$12.0 million at September 27, 2013 and \$6.7 million at December 31, 2012. Our deferred service revenue was \$34.9 million at September 27, 2013 and \$42.0 million at December 31, 2012. Our deferred revenue balance may fluctuate as a result of the timing of revenue recognition, customer payments, maintenance contract renewals, contractual billing rights and maintenance revenue deferrals included in multiple element arrangements.

Cost of Revenue/Gross Profit. Our cost of revenue consists primarily of amounts paid to third-party manufacturers for purchased materials and services, royalties, manufacturing and professional services personnel and related costs, and provision for inventory obsolescence. Our cost of revenue and gross margin for the three and nine months ended September 27, 2013 and September 28, 2012 were as follows (in thousands, except percentages):

	Three months ended		Increase (decrease) from prior year	
	September 27, 2013	September 28, 2012	\$	%
Cost of revenue				
Product	\$ 15,415	\$ 11,768	\$ 3,647	31.0 %
Service	10,420	12,839	(2,419)	(18.8)%
Total cost of revenue	<u>\$ 25,835</u>	<u>\$ 24,607</u>	<u>\$ 1,228</u>	<u>5.0 %</u>
Gross margin				
Product	62.1%	64.9%		
Service	62.0%	45.4%		
Total gross margin	62.1%	56.9%		

	Nine months ended		Increase (decrease) from prior year	
	September 27, 2013	September 28, 2012	\$	%
Cost of revenue				
Product	\$ 42,844	\$ 31,988	\$ 10,856	33.9 %
Service	33,662	40,019	(6,357)	(15.9)%
Total cost of revenue	\$ 76,506	\$ 72,007	\$ 4,499	6.2 %
Gross margin				
Product	64.7%	70.2%		
Service	57.5%	44.0%		
Total gross margin	61.9%	59.8%		

The decrease in product gross margin in the three months ended September 27, 2013 compared to the three months ended September 28, 2012 was primarily due to higher manufacturing-related costs, which decreased our product gross margin by approximately two percentage points, and product and customer mix, which decreased our product gross margin by approximately one percentage point. Higher manufacturing-related costs in the current year quarter were primarily comprised of higher employee-related and freight charges; however, the margin impact of these higher costs was partially offset by the impact of higher revenue in the current year quarter.

The decrease in product gross margin in the nine months ended September 27, 2013 compared to the nine months ended September 28, 2012 was primarily due to higher manufacturing-related costs, which reduced our product gross margin by approximately three percentage points, and product and customer mix, which reduced our product gross margin by approximately two percentage points. The decrease in product margin related to higher manufacturing-related costs was primarily attributable to higher third-party manufacturing costs resulting from the inclusion of NET's historically higher contract manufacturing costs in the current year period, which reduced our gross margin by approximately two percentage points, and other manufacturing-related costs, which decreased our product gross margin by approximately one percentage point. The decrease in product gross margin related to product and customer mix was primarily the result of the inclusion in the nine months ended September 28, 2012 of a significant higher margin transaction which contributed to the higher product gross margin in the prior year period, coupled with the inclusion of NET's historically lower product gross margins in the current year period.

The increase in service gross margin in the three months ended September 27, 2013 compared to the three months ended September 28, 2012 was primarily due to lower fixed service costs coupled with higher service revenue, which increased our service gross margin by approximately nine percentage points, and lower third-party service costs, which increased our service gross margin by approximately seven percentage points.

The increase in service gross margin in the nine months ended September 27, 2013 compared to the nine months ended September 28, 2012 was primarily due to higher service revenue coupled with lower fixed service costs, which increased our service gross margin by approximately eight percentage points, lower-third party service costs, which increased our service gross margin by approximately five percentage points, and a decrease in other service costs, primarily travel and related expenses, which increased our service gross margin by approximately one percentage point.

The decrease in our fixed service costs in both the three and nine months ended September 27, 2013 compared to the three and nine months ended September 28, 2012 was primarily attributable to the impact of our recent restructuring initiatives.

We believe that our total gross margin over the next few years will be 60% or greater.

Research and Development Expenses. Research and development expenses consist primarily of salaries and related personnel expenses and prototype costs related to the design, development, testing and enhancement of our products. Research and development expenses for the three and nine months ended September 27, 2013 and September 28, 2012 were as follows (in thousands, except percentages):

	September 27, 2013	September 28, 2012	Increase from prior year	
			\$	%
Three months ended	\$ 16,566	\$ 15,612	\$ 954	6.1%
Nine months ended	\$ 52,086	\$ 51,094	\$ 992	1.9%

The increase in research and development expenses in the three months ended September 27, 2013 compared to the three months ended September 28, 2012 is attributable to \$1.1 million of higher employee-related expenses and \$0.4 million of higher product development (third-party development, prototype and test equipment) expenses, partially offset by a net decrease of \$0.5 million in other research and development expenses. The increase in employee-related expenses in the three months ended September 27, 2013 is the result of \$0.7 million of higher bonus expense and \$0.4 million of higher stock-based compensation expense.

The increase in research and development expenses in the nine months ended September 27, 2013 compared to the nine months ended September 28, 2012 is attributable to \$1.1 million of higher depreciation expense primarily related to equipment and \$0.8 million of higher employee-related expense. These increases were partially offset by \$0.8 million of lower expense for product development and a net decrease of \$0.1 million in other research and development expenses. The increase in employee-related expenses in the nine months ended September 27, 2013 is the result of \$0.8 million of higher bonus expense and \$0.6 million of higher stock-based compensation expense, partially offset by \$0.6 million of net reductions in other employee-related expenses.

Some aspects of our research and development efforts require significant short-term expenditures, the timing of which may cause significant variability in our expenses. We believe that rapid technological innovation is critical to our long-term success, and we are tailoring our investments to meet the requirements of our customers and market. We believe that our research and development expenses for fiscal 2013 will increase modestly from fiscal 2012 levels due to our increased focus on new product development and the inclusion of a full year of expenses for NET.

Sales and Marketing Expenses. Sales and marketing expenses consist primarily of salaries and related personnel costs, commissions, travel and entertainment expenses, promotions, customer trial and evaluations inventory and other marketing and sales support expenses. Sales and marketing expenses for the three and nine months ended September 27, 2013 and September 28, 2012 were as follows (in thousands, except percentages):

	September 27, 2013	September 28, 2012	Increase from prior year	
			\$	%
Three months ended	\$ 18,291	\$ 17,613	\$ 678	3.8%
Nine months ended	\$ 58,596	\$ 56,339	\$ 2,257	4.0%

The increase in sales and marketing expenses in the three months ended September 27, 2013 compared to the three months ended September 28, 2012 is attributable to \$0.5 million of higher marketing and trade show expenses, \$0.4 million of higher employee-related expenses, \$0.3 million of higher amortization expense related to the intangible assets arising from our acquisition of NET and \$0.2 million of higher consulting expenses. These increases were partially offset by \$0.7 million of lower expense related to evaluation equipment at customer sites, which was attributable to more conversions of customer evaluation equipment to revenue than new evaluation equipment shipments in the period. The increase in employee-related expenses was attributable to \$0.8 million of higher stock-based compensation expense and \$0.5 million of higher commissions expense, partially offset by \$0.5 million of lower salary expense and \$0.4 million of net reductions in other employee-related expenses.

The increase in sales and marketing expenses in the nine months ended September 27, 2013 compared to the nine months ended September 28, 2012 is attributable to \$1.4 million of higher marketing and trade show expenses, \$1.4 million of higher amortization expense related to the intangible assets arising from our acquisition of NET and \$0.3 million of net increases in other sales and marketing expenses. These increases were partially offset by \$0.8 million of lower expense related to evaluation equipment at customer sites, which was attributable to more conversions of customer evaluation equipment to revenue than new evaluation equipment shipments in the period.

We believe that our sales and marketing expenses will increase in fiscal 2013 from fiscal 2012 levels, primarily attributable to increased personnel and related costs, including such costs attributable to the inclusion of a full year of expenses for NET, as well as our investment in our expanded sales and marketing programs.

General and Administrative Expenses. General and administrative expenses consist primarily of salaries and related personnel costs for executive and administrative personnel, recruiting expenses and audit and professional fees. General and administrative expenses for the three and nine months ended September 27, 2013 and September 28, 2012 were as follows (in thousands, except percentages):

	September 27, 2013	September 28, 2012	Increase from prior year	
			\$	%
Three months ended	\$ 9,178	\$ 7,939	\$ 1,239	15.6%
Nine months ended	\$ 29,621	\$ 25,302	\$ 4,319	17.1%

The increase in general and administrative expenses in the three months ended September 27, 2013 compared to the three months ended September 28, 2012 is attributable to \$0.8 million of higher employee-related expenses and \$0.7 million of higher professional fees, partially offset by \$0.3 million of net decreases in other general and administrative expenses. The increase in employee-related expenses is attributable to \$0.7 million of higher stock-based compensation expense and \$0.4 million of higher bonus expense, partially offset by \$0.3 million of lower salary expense.

The increase in general and administrative expenses in the nine months ended September 27, 2013 compared to the nine months ended September 28, 2012 is attributable to \$2.2 million of higher employee-related expenses, \$0.3 million of higher expense related to reserves for accounts receivable, \$0.3 million of higher expense related to foreign currency translation, \$0.2 million of higher professional fees and \$1.3 million of net increases in other general and administrative expenses. The increase in employee-related expenses is attributable to \$3.6 million of higher stock-based compensation expense, partially offset by \$0.9 million of lower salary expense and \$0.4 million of net decreases in other employee-related expenses.

The changes in stock-based compensation expense and salary expense were expected due to the equity-based actions described in the Overview section of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

We believe that our general and administrative expenses will increase in fiscal 2013 compared to fiscal 2012 levels, primarily due to higher stock-based compensation expense.

Acquisition-Related Expenses. Acquisition-related expenses include those costs related to the acquisition of NET that would otherwise not have been incurred by us. These costs are primarily comprised of professional and service fees, such as legal, audit, consulting, transfer agent and other fees, and expenses related to cash payments to former NET executives under their NET change of control agreements. We recorded acquisition-related expenses of \$4.1 million in the three months ended September 28, 2012, comprised of \$2.1 million related to change of control agreements and \$2.0 million of professional and services fees. We recorded acquisition-related expenses of \$5.1 million in the nine months ended September 28, 2012, comprised of \$3.0 million of professional and services fees and \$2.1 million related to change of control agreements. We did not record acquisition-related expenses in either the three or nine months ended September 27, 2013.

Restructuring Expense. On August 7, 2012, we announced that we had committed to a restructuring initiative to streamline operations and reduce operating costs by closing and consolidating certain facilities and reducing our worldwide workforce. In connection with this ongoing initiative, we recorded \$4.8 million of restructuring expense in the nine months ended September 27, 2013, comprised of \$1.2 million in the three months ended September 27, 2013, \$1.7 million in the three months ended June 28, 2013 and \$1.9 million in the three months ended March 29, 2013. The amount recorded in the three months ended September 27, 2013 is for severance and related costs in connection with reducing our workforce. The amount recorded in the three months ended June 28, 2013 is comprised of \$1.4 million for severance and related costs and \$0.3 million of facility costs to adjust our estimate of future sublease income. The amount recorded in the three months ended March 29, 2013 primarily represents severance and related costs in connection with reducing our workforce. We expect to record restructuring expense of approximately \$2 million in the fourth quarter of fiscal 2013.

In both the three and nine months ended September 28, 2012, we recorded restructuring expense of \$2.0 million, comprised of \$1.9 million to reduce our workforce and \$0.1 million related to the consolidation of our offices in France.

Interest Income, net. Interest income and interest expense for the three and nine months ended September 27, 2013 and September 28, 2012 were as follows (in thousands, except percentages):

	Three months ended		Increase (decrease) from prior year	
	September 27, 2013	September 28, 2012	\$	%
	Interest expense	\$ (23)	\$ (159)	\$ (136)
Interest income	84	179	(95)	(53.1)%
Interest income, net	\$ 61	\$ 20	\$ 41	205.0 %

	Nine months ended		(Decrease) from prior year	
	September 27, 2013	September 28, 2012	\$	%
	Interest expense	\$ (71)	\$ (167)	\$ (96)
Interest income	360	624	(264)	(42.3)%
Interest income, net	\$ 289	\$ 457	\$ (168)	(36.8)%

Interest expense in the three and nine months ended September 27, 2013 relates to interest on the debt assumed in connection with the acquisition of NET and interest on capital lease obligations. Interest expense in the three and nine months ended September 28, 2012 relates to interest on the debt assumed in connection with the acquisition of NET for the period subsequent to the acquisition and interest on capital lease obligations. Interest income consists of interest earned on our cash equivalents, marketable debt securities and long-term investments. The decrease in interest income, net, in the current year periods compared to the prior year periods is attributable to a lower average portfolio yield in the current year.

Income Taxes. We recorded provisions for income taxes of \$1.7 million in the nine months ended September 27, 2013 and \$1.4 million in the nine months ended September 28, 2012. These amounts reflect our estimates of the effective rates expected to be applicable for the respective full fiscal years, adjusted for any discrete events, which are recorded in the period that they occur. These estimates are reevaluated each quarter based on our estimated tax rate for the full fiscal year. The provision for the nine months ended September 27, 2013 also includes the tax effect of the amortizable goodwill arising from the acquisition of NET.

The provisions for income taxes for the nine months ended September 27, 2013 and September 28, 2012 represent forecasted tax expense on the earnings of our foreign operations. Our effective tax rate for both nine-month periods was less than the statutory federal and state rates due to the existence of a valuation allowance on our domestic losses.

In September 2013, the U.S. Department of the Treasury and the Internal Revenue Service released final regulations relating to guidance on applying tax rules to amounts paid to acquire, produce or improve tangible personal property as well as rules for materials and supplies. We are currently assessing these rules and the impact they will have on our consolidated financial statements, if any.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial position, changes in financial position, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Liquidity and Capital Resources

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

	Nine months ended		Change
	September 27, 2013	September 28, 2012	
Net loss	\$ (22,391)	\$ (33,782)	\$ 11,391
Adjustments to reconcile net loss to cash flows provided by (used in) operating activities	27,352	16,548	10,804
Changes in operating assets and liabilities	25,573	(10,848)	36,421
Net cash provided by (used in) operating activities	\$ 30,534	\$ (28,082)	\$ 58,616
Net cash (used in) provided by investing activities	\$ (11,145)	\$ 17,163	\$ (28,308)
Net cash used in financing activities	\$ (34,390)	\$ (22,116)	\$ (12,274)

Our cash, cash equivalents, marketable securities and long-term investments totaled \$267.5 million at September 27, 2013 and \$279.6 million at December 31, 2012. We had cash and short-term investments held by our foreign subsidiaries aggregating approximately \$9 million at September 27, 2013 and approximately \$7 million at December 31, 2012. We do not intend to repatriate these funds, and as such, they are not available to fund our domestic operations. If we were to repatriate the funds, they would likely be treated as income for U.S. tax purposes, fully offset by our net operating losses. We do not believe this has a material impact on our liquidity.

On July 29, 2013, we announced that our Board of Directors has authorized a stock buyback program to repurchase up to \$100 million of our common stock from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares repurchased will be determined by our management based on their evaluation of market conditions and other factors. We may elect to implement a 10b5-1 repurchase program, which would permit shares to be repurchased when we might otherwise be precluded from doing so under insider trading laws. The buyback program may be suspended or discontinued at any time. The buyback program is being funded using our working capital. As of September 27, 2013, we had repurchased and retired 10.8 million shares for \$37.3 million in the aggregate, including transaction fees. This amount is included in financing activities in our condensed consolidated statement of cash flows for the nine months ended September 27, 2013.

Our operating activities provided \$30.5 million of cash in the nine months ended September 27, 2013, compared to \$28.1 million of cash used in the nine months ended September 28, 2012.

Cash provided by operating activities in the nine months ended September 27, 2013 was primarily the result of lower accounts receivable, other operating assets and inventory, as well as higher accounts payable. These amounts were partially offset by lower accrued expenses and other long-term liabilities and deferred revenue. The decrease in accounts receivable primarily reflects our focus on cash collections and the decrease in other operating assets was primarily related to lower prepaid expenses. Our increased focus on maintaining appropriate inventory levels was the primary contributor to the decrease in inventory. The decrease in accrued expenses and other long-term liabilities was primarily related to lower taxes payable, accruals for the employee stock purchase plan and other accrued expenses, partially offset by increases in accruals for employee compensation and related costs and restructuring. Our net loss, adjusted for non-cash items such as depreciation, amortization, impairment charges and stock-based compensation, provided \$5.0 million of cash.

Cash used in operating activities in the nine months ended September 28, 2012 was primarily the result of lower deferred revenue, accrued expenses and other long-term liabilities, and accounts payable, as well as higher other operating assets and inventory. These amounts were partially offset by lower accounts receivable. The decrease in accrued expenses and other long-term liabilities primarily reflects income tax payments. The increase in other operating assets is primarily related to pre-payments of royalties, licenses and maintenance. The increase in inventory levels is primarily due to purchases of materials to fulfill our expected shipments in the near term. The decrease in accounts receivable primarily reflects our continued focus on cash collections, coupled with lower revenue. Our net loss, adjusted for non-cash items such as depreciation, amortization and stock-based compensation, used \$17.2 million of cash.

Our investing activities used \$11.1 million of cash in the nine months ended September 27, 2013, comprised of \$6.6 million of net purchases of marketable securities and \$4.5 million of investments in property and equipment.

Our investing activities provided \$17.2 million of cash in the nine months ended September 28, 2012, comprised of \$60.5 million of net maturities of marketable securities, partially offset by \$35.5 million of cash paid, net of cash acquired, for the acquisition of NET on August 24, 2012 and \$7.8 million of investments in property and equipment.

Our financing activities used \$34.4 million of cash in the nine months ended September 27, 2013, comprised of \$37.3 million for the repurchase of common stock under our previously announced stock buyback program, \$1.2 million used to pay withholding obligations related to the net share settlement of restricted stock awards upon vesting and \$0.1 million for payments on our capital leases for office equipment. These amounts were partially offset by \$2.4 million of proceeds from the exercise of stock options and \$1.9 million of proceeds from the sale of our common stock in connection with our Amended and Restated 2000 Employee Stock Purchase Plan ("ESPP").

Our financing activities used \$22.1 million of cash in the nine months ended September 28, 2012, comprised of \$23.7 million for the settlement of the 7 3/4% redeemable convertible subordinated debentures assumed in connection with the acquisition of NET, \$0.2 million of cash used to pay withholding obligations related to the net share settlement of restricted stock awards upon vesting and \$0.1 million for payments on our capital leases for office equipment. These amounts were partially offset by \$1.7 million of proceeds from the sale of our common stock in connection with our ESPP and \$0.2 million of proceeds from the exercise of stock options.

Based on our current expectations, we believe our current cash, cash equivalents, marketable debt securities and long-term investments will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least twelve months, including any future stock repurchases under the aforementioned stock buyback program. It is difficult to predict future liquidity requirements with certainty. The rate at which we will consume cash will be dependent on the cash needs of future operations, including changes in working capital, which will, in turn, be directly affected by the levels of demand for our products, the timing and rate of expansion of our business, the resources we devote to developing our products and any litigation settlements. We anticipate devoting substantial capital resources to continue our research and development efforts, to maintain our sales, support and marketing, to improve our controls environment, for other general corporate activities and to vigorously defend against existing and potential litigation. See Note 16 to our condensed consolidated financial statements for a description of our contingencies.

Recent Accounting Pronouncements

On July 18, 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-11, *Presentation of a Liability for an Unrecognized Tax Benefit When a Net Operating Loss Carryforward or Tax Credit Carryforward Exists* ("ASU 2013-11"), which provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss ("NOL") carryforward, a similar tax loss or a tax credit carryforward exists. The FASB's objective in issuing ASU 2013-11 is to eliminate diversity in practice resulting from a lack of guidance on this topic in current GAAP. ASU 2013-11 requires that an entity present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for an NOL carryforward, a similar tax loss or a tax credit unless certain conditions exist. ASU 2013-11 is effective for us beginning January 1, 2014. We do not expect the adoption of ASU 2013-11 to have an impact on our consolidated financial statements, as we currently apply the methodology prescribed by ASU 2013-11.

On March 4, 2013, the FASB issued ASU 2013-05, *Foreign Currency Matters (Topic 830) - Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity* ("ASU 2013-05"), which indicates that the entire amount of a cumulative translation adjustment ("CTA") related to an entity's investment in a foreign entity should be released when there has been either: (a) a sale of a subsidiary or group of net assets within a foreign entity and the sale represents the substantially complete liquidation of the investment in a foreign entity; (b) the loss of a controlling financial interest in an investment in a foreign entity (i.e., the foreign entity is deconsolidated); or (c) the step acquisition of a foreign entity (i.e., when the accounting for an entity has changed from applying the equity method for an investment in a foreign entity to consolidating the foreign entity). ASU 2013-05 does not change the requirement to release a pro rata portion of the CTA of the foreign entity into earnings for a partial sale of an equity method investment in a foreign entity. ASU 2013-05 is effective for us January 1, 2014, although early adoption is permitted. We do not expect the adoption of ASU 2013-05 to have a material impact on our consolidated financial statements.

On February 5, 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* ("ASU 2013-02"), which requires entities to disclose changes in accumulated other comprehensive income balances by component (i.e., unrealized gains or losses on available-for-sale securities or foreign-currency items) and significant items reclassified out of accumulated other comprehensive income by component either on the face of the income statement or as a separate footnote to the financial statements. ASU 2013-02 does

not change the current requirements for interim financial statement reporting of comprehensive income. ASU 2013-02 became effective for us beginning January 1, 2013. We do not have significant items reclassified out of accumulated other comprehensive income and accordingly, the adoption of ASU 2013-02 did not impact our condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to a variety of market risks, including changes in interest rates affecting the return on our investments and foreign currency fluctuations. We do not believe that a hypothetical 10% adverse movement in interest rates and foreign currency exchange rates would have a materially different impact from what was disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of September 27, 2013.

Changes in Internal Control over Financial Reporting. There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended September 27, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

We have revised our discussion of the risk factors affecting our business since those presented in our Annual Report on Form 10-K, Part I, Item 1A, for the fiscal year ended December 31, 2012. The following discussion includes one revised risk factor ("We will not be successful if we do not grow our customer base, especially since our revenue has historically been generated from a limited number of customers and per-order revenue from orders placed by the majority of our new customers is generally lower than the per-order revenue generated from our historical sales. Additionally, if we are unable to generate recurring business from our existing customers, our consolidated financial statements could be materially and adversely affected.") that reflects a material development subsequent to the discussion of risk factors included in our most recent Quarterly Report on Form 10-Q for the fiscal quarter ended June 28, 2013. Except for the one risk factor noted above, there have been no material changes in our assessment of our risk factors from those set forth in our Quarterly Report on Form 10-Q for the fiscal quarter ended June 28, 2013. For convenience, all of our risk factors are included below.

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

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

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

- consolidation within the telecommunications industry, including acquisitions of or by our customers;
- general economic conditions in our markets, both domestic and international, as well as the level of discretionary IT spending;
- competitive conditions in our markets, including the effects of new entrants, consolidation, technological innovation and substantial price discounting;
- fluctuation in demand for our voice infrastructure products and services, and the timing and size of customer orders;
- fluctuations in foreign exchange rates;
- cancellation or deferral of existing customer orders or the renegotiation of existing contractual commitments;
- mix of product configurations sold;
- length and variability of the sales cycle for our products;
- application of complex revenue recognition accounting rules to our customer arrangements;

- timing of revenue recognition;
- changes in our pricing policies, the pricing policies of our competitors and the prices of the components of our products;
- market acceptance of new products, product enhancements and services that we offer;
- the quality and level of our execution of our business strategy and operating plan, and the effectiveness of our sales and marketing programs;
- new product announcements, introductions and enhancements by us or our competitors, which could result in deferrals of customer orders;
- our ability to develop, introduce, ship and successfully deliver new products and product enhancements that meet customer requirements in a timely manner;
- our reliance on contract manufacturers for the production and shipment of our hardware products;
- our or our contract manufacturers' ability to obtain sufficient supplies of sole or limited source components or materials;
- our ability to attain and maintain production volumes and quality levels for our products;
- variability and unpredictability in the rate of growth in the markets in which we compete;
- costs related to acquisitions; and
- corporate restructurings.

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

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

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

We incurred net losses in the first three quarters of fiscal 2013, as well as in fiscal 2012, fiscal 2011 and fiscal 2010. We may incur additional net losses in future quarters and years. Our revenues may not grow and we may never generate sufficient revenues to sustain profitability.

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

Prior to our acquisition of NET on August 24, 2012, we had shipped our products to a limited number of customers. Since the acquisition of NET, the number of customers to whom we have shipped our products has increased significantly. However, due to the nature of the former NET products, in general, the per-order revenue from orders placed by the majority of our new customers is lower than the per-order revenue generated from our historical sales. Our future success will depend on our ability to attract additional customers beyond our current customer base. In fiscal 2012, one customer, AT&T, contributed more than 10% of our revenue, representing approximately 20% of our revenue. In fiscal 2011, two customers, Bahamas Telecommunications Company Ltd. and AT&T, each contributed more than 10% of our revenue, representing approximately 26% of our revenue in the aggregate. Factors that may affect our ability to grow our customer base include the following:

- economic conditions that discourage potential new customers from making the capital investments required to adopt new technologies;
- deterioration in the general financial condition of service providers and enterprises, or their ability to raise capital or access lending sources; and

- new product introductions by our competitors.

If we are unable to expand our customer base, we will be forced to rely on generating recurring revenue from existing customers, which may not be successful. We expect to derive an increasing percentage of our revenue from engagements with our distribution, value-added resellers and systems integration partners; however, in the foreseeable future, the majority of our revenue will continue to depend on sales of our products to a limited number of existing customers. Factors that may affect our ability to generate recurring revenues from our existing customers include the following:

- customer willingness to implement our new voice infrastructure products;
- acquisitions of or by our customers;
- delays or difficulties that we may incur in completing the development and introduction of our planned products or product enhancements;
- failure of our products to perform as expected; and
- difficulties we may incur in meeting customers' delivery requirements.

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

We continue to enhance our sales strategy, which we expect will include more significant engagements with distribution, value-added resellers ("VAR") and systems integrator partners to resell our products. Disruptions to, or our failure to effectively develop and manage, these partners and the processes and procedures that support them could adversely affect our ability to generate revenues from the sale of our products. If we do not have adequate personnel, experience and resources to manage the relationships with these partners and to fulfill our responsibilities under such arrangements, such shortcomings could lead to the decrease of the sales of our products and our operating results could suffer.

We continue to enhance our sales strategy, which we expect will include more significant engagements with distribution and VAR channel partners to resell our products. In addition, some of our target customers, including the government, rely on systems integrators to incorporate new equipment or services into their networks. Our future success is dependent upon establishing and maintaining successful relationships with a variety of value-added distribution, VAR and systems integration partners. While we have begun the process of identifying and entering into agreements with software application, system integrator and OEM or resale partners, we will need to increase our engagement with such partners for us to be successful. We may also need to pursue strategic partnerships with vendors who have broader technology or product offerings in order to compete with end-to-end solution providers. In addition, many of the enterprise markets we are pursuing require a broad network of resale partners in order to achieve effective distribution.

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

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

In 2012, the macro-environment for our media gateway trunking business faced significant declining revenues that happened faster than we were anticipating. Even though we continue to transform our company from a media gateway trunking business to an SBC business, we remain dependent upon our voice infrastructure products, and our revenues will continue to depend upon their commercial success for the foreseeable future. If the market for these products continues to significantly decline and if our SBC sales do not accelerate as quickly as we forecast, our operating results could suffer.

While we continue to transform our company from a media gateway trunking business to an SBC business, our current revenues still depend upon the commercial success of our TDM-to-IP and our all-IP voice infrastructure products and solutions, and we believe this will remain true for the foreseeable future. Product revenue from sales of our trunking and communications applications products was \$85.7 million for the year ended December 31, 2012, \$116.5 million for the year ended December 31, 2011 and \$122.2 million for the year ended December 31, 2010, which represented decreases of 26.4% in fiscal 2012 compared to fiscal 2011 and 4.7% in fiscal 2011 compared to fiscal 2010. If the market for these products continues to significantly decline and if our SBC sales do not accelerate as quickly as we forecast, our operating results could suffer.

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

Success in our industry requires large investments in technology and creates exposure to rapid technological and market changes. We spend a significant amount of time, money and resources developing new technology, products and solutions. Our strategic plan includes a significant shift in our investments from mature technologies that previously generated significant revenue for us toward certain next-generation technologies as well as working with more channel partners to sell our products. In order for us to be successful, our technologies, products and solutions must be accepted by relevant standardization bodies and by the industry as a whole. Our choices of specific technologies to pursue, and those to de-emphasize, may prove to be inconsistent with our customers' investment spending. Moreover, if we invest in the development of technologies, products and solutions that do not function as expected, are not adopted by the industry, are not ready in time, are not accepted by our customers as quickly as anticipated or are not successful in the marketplace, our sales and earnings may suffer and, as a result, our stock price could decline. As technology advances, we may not be able to respond quickly or effectively to developments in the market for our products, or new industry standards may emerge and could render our existing or future products obsolete. If our products become technologically obsolete or if we are unable to develop successor products that are accepted by our customers, we may be unable to sell our products in the marketplace and face declines in sales. We may also experience difficulties with software development, hardware design, manufacturing or marketing that could delay or prevent our development, introduction or marketing of new products and enhancements.

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

In August 2012, we announced that we were implementing a restructuring initiative to streamline operations and reduce our operating costs. To date, this restructuring plan has resulted in a workforce reduction of approximately 180 people worldwide. In connection with this action, we recorded restructuring expense of \$12.5 million to date, comprised of \$4.4 million for the consolidation of certain facilities, \$7.8 million for severance and related costs and \$0.3 million for the write-off of assets associated with the headcount reduction and facilities consolidations. During fiscal 2010 and 2009, we had a number of restructuring activities, including office closings and lay-offs. These restructurings and any future restructurings, should it become necessary for us to continue to restructure our business due to worldwide market conditions or other factors that reduce the demand for our products and services, could adversely affect our ability to execute our business strategy in a number of ways, including through:

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

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

One factor that significantly affects our operating results is the impact of economic conditions on the willingness of our current and potential customers to make capital investments. Given the general uncertainty as to continued economic growth during the current post-recessionary global economy as well as concerns regarding another potential recession, we believe that customers continue to be cautious about sustained economic growth and have tried to maintain or improve profitability through cost control and constrained capital spending, which places additional pressure on IT departments to demonstrate acceptable

return on investment. Some of our current or prospective customers may cancel or delay spending on the development or roll-out of capital and technology projects with us due to the continuing economic uncertainty and, consequently, our results of operations may be adversely affected. In addition, the current uncertain worldwide economic environment and fragile financial markets make it increasingly difficult for us, our customers and our suppliers to accurately forecast future product demand, which could result in an inability to satisfy demand for our products and a loss of market share. Our revenues are likely to decline in such circumstances and our profit margins could erode, or we could incur significant losses.

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

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

Continuing turmoil in the geopolitical environment in many parts of the world, including terrorist activities and military actions, particularly the continuing tension in Southeast Asia, the Middle East and Africa, as well as political and economic issues in Europe, including the impact of European sovereign debt concerns, continue to put pressure on global economic conditions. Our operating results and our ability to expand into other international markets may also be affected by changing economic conditions particularly germane to that sector or to particular customer markets within that sector.

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

Competition in the telecommunications market is intense. This market has historically been dominated by large incumbent telecommunications equipment companies, such as Alcatel-Lucent, Ericsson LM Telephone Company, Huawei Technologies Co. Ltd., NEC Corp. and Nokia Corp., all of which are our direct competitors. We also face competition from other telecommunications and networking companies, including Cisco Systems, Inc., GENBAND Inc. and Oracle Corporation, that design competing products. Other competitors may also merge, intensifying competition. Additional competitors with significant financial resources may enter our markets and further intensify competition.

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

To compete effectively, we must deliver innovative products that:

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

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

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

To achieve market acceptance for our products, we must effectively anticipate, and adapt in a timely manner to, customer requirements and offer products and services that meet changing customer demands. Prospective customers may require product features and capabilities that our current products do not have. The introduction of new or enhanced products also

requires that we carefully manage the transition from older products in order to minimize disruption in customer ordering patterns and ensure that adequate supplies of new products can be delivered to meet anticipated customer demand. If we fail to develop products and offer services that satisfy customer requirements or if we fail to effectively manage the transition from older products, our ability to create or increase demand for our products would be seriously harmed and we may lose current and prospective customers.

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

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

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

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

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

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

Our business could be jeopardized if we are unable to protect our intellectual property or become subject to intellectual property rights claims, which could require us to incur significant cost; additionally, in some jurisdictions, our rights may not be as strong as we currently enjoy in the United States.

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our products or technology. Monitoring unauthorized use of our products is difficult and we cannot be certain that the steps we have taken will prevent unauthorized use of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. The legal systems of many foreign countries do not protect or honor intellectual property rights to the same extent as the legal system of the United States. It may be very

difficult, time-consuming and costly for us to attempt to enforce our intellectual property rights in these jurisdictions. If competitors are able to use our technology, our ability to compete effectively could be harmed.

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

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

Any lawsuits regarding intellectual property rights, regardless of their success, would be time-consuming, expensive to resolve and would divert our management's time and attention. In addition, although historically our costs to defend lawsuits relating to indemnification provisions in our product agreements have been insignificant, the costs were significant in fiscal 2008 and may be significant in future periods.

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

Campaigns by significant investors to effect changes at publicly-traded companies continue to be prevalent. In 2009, we entered into a letter agreement with our then-largest stockholder, pursuant to which we agreed to take certain actions related to our corporate governance. While we believe we have satisfied in full our obligations under such letter agreement, there can be no assurance that such stockholder and/or any other stockholder will not pursue actions to effect changes in our management and strategic direction, including through the solicitation of proxies from our stockholders. If a proxy contest were to be pursued by any stockholder, it could result in substantial expense to us, consume significant attention of our management and Board of Directors, and disrupt our business.

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

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

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

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

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

In addition, we adopted a limited duration stockholder rights plan on June 26, 2008, which was amended on June 10, 2011 and again on June 21, 2013 to extend the expiration date of such plan until June 26, 2015. The rights are not intended to prevent a takeover, and we believe these rights will help us in our negotiations with any potential acquirers. However, if the Board of Directors believes that a particular acquisition of us is undesirable, the rights may have the effect of rendering more difficult or

discouraging that acquisition. The rights may substantially dilute the stock ownership of a person or group that attempts to acquire us (or a significant percentage of our outstanding capital stock) on terms, or in a manner, not approved by our Board of Directors, except pursuant to an offer conditioned upon redemption of the rights.

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

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

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

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

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

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

From time to time, we are subject to claims and litigation regarding intellectual property rights or other claims, which could seriously harm our business and require us to incur significant costs. In the past, we have been named as a defendant in securities class action and derivative lawsuits. We are generally obliged, to the extent permitted by law, to indemnify our current and former directors and officers who are named as defendants in these lawsuits. Defending against litigation may require significant attention and resources of management. Regardless of the outcome, such litigation could result in significant legal expenses.

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

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

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

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

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

We have expanded, and expect to continue to expand, our operations in international and emerging markets. International operations are a significant part of our business, and such operations will continue to require significant management attention and financial resources to successfully develop direct and indirect international sales and support channels. In addition, our international operations are subject to other inherent risks, including:

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

Our international revenue, both as a percentage of total revenue and absolute dollars, may vary from one period to the next, and accordingly, current data may not be indicative of future periods. If we are unable to support our business operations in international and emerging markets, or their further expansion, while balancing the higher operational and financial risks associated with these markets, our business and consolidated financial statements could be harmed. In addition, we may not be able to develop international market demand for our products, which could impair our ability to grow our revenues. In many international markets, long-standing relationships between potential customers and their local suppliers and protective regulations, including local content requirements and approvals, create barriers to entry. We have limited experience marketing, distributing and supporting our products in certain international locations and, to do so, we expect that we will need to develop versions of our products that comply with local standards. Moreover, difficulties in foreign financial markets and economies and of foreign financial institutions, particularly in emerging markets, could adversely affect demand from customers in the affected countries.

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

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

In the past nine months, we have switched from five contract manufacturers to three contract manufacturers without any supply disruption. Additionally, we had switched from one single-source manufacturer to another in 2009 as well as in 2011 without any supply disruptions during either of these transitions. However, any future changes to or consolidations of our current contract manufacturers could lead to material shortages or delays in the supply of our products. In the event we elect to continue to consolidate and/or change any of our manufacturers, qualifying a new contract manufacturer to commence commercial scale production or consolidating to a reduced number of contract manufacturers are expensive and time-consuming activities and could result in a significant interruption in the supply of our products. If a change in contract manufacturers results in delays in our fulfillment of customer orders or if a contract manufacturer fails to make timely delivery of orders, we may lose revenues and suffer damage to our customer relationships.

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

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

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

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

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

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

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

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

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

Our future success depends upon the continued services of our executive officers who have critical industry experience and relationships that we rely on to implement our business plan. With the exception of our current Senior Vice President and Chief Financial Officer, who will remain with the Company until March 31, 2014, and certain key employees based in the European Union, none of our officers or key employees is bound by an employment agreement for any specific term. The loss of the services of any of our officers or key employees could delay the development and introduction of, and negatively impact our ability to sell, our products and achieve our business objectives.

On July 29, 2013, the Company announced that Maurice L. Castonguay, the Company's Senior Vice President and Chief Financial Officer, plans to leave the Company, effective March 31, 2014. Matthew Dillon, our former Senior Vice President, Global Services and Systems Management, departed the Company effective August 15, 2013. We had two executive departures in fiscal 2012: the departures of our Senior Vice President of Engineering and Chief Technology Officer in August 2012 and our Vice President of Human Resources in September 2012. We had three executive departures in fiscal 2011: the departure of our Chief Financial Officer and our Vice President of Product Operations, both in August 2011, and the departure of our Vice President of Engineering and Chief Architect in April 2011. While we have since hired replacements and promoted certain individuals, there is always a risk of uncertainty and instability relating to our ability to find highly qualified successors for certain executive positions and to transition the duties and responsibilities of any departing key executive in an orderly manner.

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

We historically have used stock options and restricted stock as a significant component of our employee compensation program in order to align our employees' interests with the interests of our stockholders, encourage employee retention and provide competitive compensation packages. In 2007, our stockholders approved a stock incentive plan which includes a limited amount of shares to be granted under such plan. In 2010, our stockholders approved amendments to this plan to, among other things, increase the number of shares of our common stock that may be granted under this plan from 14,902,701 to 34,902,701. More recently, in 2013, our stockholders approved an amendment to this plan to increase the number of shares of our common stock that may be granted under this plan by 21,000,000, from 34,902,701 to 55,902,701. Additionally, in connection with the acquisition of NET, we assumed NET's 2008 Stock Incentive Plan, which provides for the award of stock options, restricted stock, performance-based awards and stock appreciation rights to Sonus employees who were previously NET employees and Sonus employees hired after August 24, 2012, the NET acquisition date.

When the number of shares available for grant under our stock incentive plans will be insufficient for our needs, it is not certain that our stockholders will approve an increase in the number of shares that we are authorized to issue under such plans. The limited number of shares available for use as equity incentives to employees may make it more difficult for us to attract, retain and motivate key personnel.

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

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

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

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

We have incorporated third-party licensed technology, including open source software, into our current products. From time to time, we may be required to license additional technology from third parties to develop new products or product enhancements. Third-party licenses and on-going maintenance and support may not be available or continue to be available to us on commercially reasonable terms or may be available to us but only at significantly escalated pricing. Additionally, we may not be able to replace the functionality provided by third-party software currently offered with our products if that software becomes obsolete, defective or incompatible with future versions of our products or is not adequately maintained or updated. The inability to maintain or re-license any third-party licenses required in our current products or to obtain any new third-party

licenses to develop new products and product enhancements could require us to obtain substitute technology of lower quality or performance standards or at greater cost, and delay or prevent us from making these products or enhancements, any of which could seriously harm the competitiveness of our products. Any significant interruption in the availability of these third-party software products or defects in these products could harm our sales unless and until we can secure an alternative source. Although we believe there are adequate alternate sources for the technology licensed to us, such alternate sources may not provide us with the same functionality as that currently provided to us.

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

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

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

A portion of our revenue is generated from government sales, which is a new line of business for us due to our recent acquisition of NET. Disruptions to, or our failure to effectively develop, manage and maintain our government customer relationships could adversely affect our ability to generate revenue from the sales of certain of our products. Further, such government sales are subject to potential delays and cutbacks, require specific testing efforts, and impose significant compliance obligations.

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

Until recently, a majority of NET's government sales has involved the Promina product, for which sales have declined substantially in recent periods. While governmental agencies have purchased and are evaluating some of our new products for broader deployment, this new line of business may not develop quickly or be sufficient to offset future declines in sales of the Promina product. Spending by government customers fluctuates based on budget allocations and the timely passage of the annual federal budget. An impasse in federal government budget decisions could lead to substantial delays or reductions in federal spending. During 2011, the U.S. federal government was unable to reach agreement on budget reduction measures required by the Budget Control Act of 2011 (the "Budget Act"). The sequestration began on March 1, 2013 as a result of budget cuts enacted by the Budget Act, including automatic reductions in both defense and discretionary spending. To date, the effects of sequestration have been minimal on our government business. However, expected additional budget cuts in fiscal 2014 could have an adverse effect on spending on IT and communications products and services, which could result in lower revenue from government customers in the future.

The Department of Defense ("DOD") has issued specific requirements for IP networking products for features and interoperability. In order for a vendor's product to be used to connect to the DOD network, that product must pass a series of significant tests and be certified by the Joint Interoperability Test Command ("JITC"). The VX900, NX1000 and Promina products obtained in the acquisition of NET are already certified by JITC. We have recently submitted all of the requisite paperwork to begin the process of testing of the SBC5000 product at JITC. However, if we are unable to obtain JITC certification as needed, our DOD sales, and hence our revenue and results of operations, may suffer.

A substantial portion of the revenue generated from our government customers is based on our contract with the General Services Administration ("GSA"). This contract imposes significant compliance and reporting obligations on us. The contract also establishes a fixed price under which government customers may purchase our products and provides for automatic mandatory price reductions upon certain events. In addition, the GSA can impose financial penalties for non-compliance.

Consolidation in the telecommunications industry could harm our business.

The telecommunications industry has experienced consolidation, including the recent acquisitions of Acme Packet, Inc. and Tekelec, both by Oracle Corporation, and we expect this trend to continue. Consolidation among our customers may cause delays or reductions in capital expenditure plans and/or increased competitive pricing pressures as the number of available customers declines and the relative purchasing power of customers increases in relation to suppliers. Any of these factors could adversely affect our business.

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

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

Most of our sales are on an open credit basis, with typical payment terms of 30 to 45 days. We monitor individual customer payment capability in granting such open credit arrangements, seek to limit such open credit to amounts we believe our customers can pay and maintain reserves we believe are adequate to cover exposure for doubtful accounts. However, there can be no assurance that our open credit customers will pay the amounts they owe to us or that the reserves we maintain will be adequate to cover such credit exposure. Our customers' failure to pay and/or our failure to maintain sufficient reserves could have a material adverse effect on our consolidated financial statements. Additionally, in the event that turmoil in the credit markets makes it more difficult for some customers to obtain financing, those customers' ability to pay could be adversely impacted, which in turn could have a material adverse impact on our business and consolidated financial statements.

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

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

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

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

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

Natural catastrophic events, such as earthquakes, fire, floods, or tornadoes, may also affect our or our customers' operations and could have a material adverse effect on our business. Moreover, one of our offices is located in the Silicon Valley area of Northern California, a region known for seismic activity. These facilities are located near the San Francisco Bay where the

water table is quite close to the surface and where tenants in nearby facilities have experienced water intrusion problems. A significant natural disaster, such as an earthquake or flood, could have a material adverse effect on our business in this location.

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

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

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

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

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

A change in accounting pronouncements or taxation rules or practices can have a significant effect on our reported results and may affect our reporting of transactions completed before the change is effective. New accounting pronouncements, taxation rules and varying interpretations of accounting pronouncements or taxation rules have occurred in the past and may occur in the future. The change to existing rules, future changes, if any, or the need for us to modify a current tax position may adversely affect our reported financial results or the way we conduct our business. For example, a new revenue recognition standard and the International Accounting Standards Board and Financial Accounting Standards Board joint project on lease accounting are both expected to be finalized in 2013 and, if ratified, could be effective for companies as early as 2015, and could have a material impact on our consolidated financial statements.

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

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

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

Under generally accepted accounting principles, we review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Our intangible assets increased by approximately \$17 million as a result of our acquisition of NET. Goodwill, which increased by approximately \$27 million as a result of our acquisition of NET, is tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or intangible assets may not be recoverable include significant underperformance relative to plan or long-term projections, strategic changes in business strategy, significant negative industry or economic trends, significant change in circumstances relative to a large customer, significant decline in our stock price for a sustained period and decline in our market capitalization to below net book value.

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

business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

With the acquisition of NET in August 2012, we acquired a subsidiary that may have exported or re-exported certain of its products in violation of U.S. export laws. NET learned of these potential violations in its fiscal year ended March 25, 2011. Consequently, NET launched an internal investigation of its export-related activities, and reported the results of the investigation to the U.S. government. In June 2012, the U.S. government, through the Bureau of Information Security and Office of Foreign Assets Control closed its investigation with no penalty.

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

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**(c) Issuer Purchases of Equity Securities**

The following table provides information with respect to the shares of common stock repurchased by us for the periods indicated:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (3)
June 29, 2013 - July 26, 2013	47,337	\$ 3.62	—	\$ —
July 27, 2013 - August 23, 2013	10,633,977	\$ 3.43	10,495,800	\$ 63,999,994
August 24, 2013 - September 27, 2013	344,468	\$ 3.62	296,094	\$ 62,925,537
Total	11,025,782	\$ 3.44	10,791,894	\$ 62,925,537

(1) Upon vesting of restricted stock awards, our employees are permitted to return to us a portion of the newly vested shares to satisfy the tax withholding obligations that arise in connection with such vesting. During the third quarter of fiscal 2013, 233,888 shares of restricted stock were returned to us by employees to satisfy tax withholding obligations arising in connection with vesting of restricted stock, which shares are included in this column.

(2) Consists of purchases pursuant to a stock buyback program announced on July 29, 2013, under which our Board of Directors has authorized the repurchase of up to \$100 million of our common stock from time to time on the open market or in privately negotiated transactions (the "2013 Buyback Program"). The timing and amount of any shares repurchased will be determined by our management based on its evaluation of market conditions and other factors. We may elect to implement a 10b5-1 repurchase program, which would permit shares to be repurchased when we might otherwise be precluded from doing so under insider trading laws. The 2013 Buyback Program may be suspended or discontinued at any time. The 2013 Buyback Program is being funded using our working capital.

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

Item 6. Exhibits

Exhibit No.	Description
10.1 +	Amendment to Employment Agreement between Sonus Networks, Inc. and Maurice Castonguay, accepted July 26, 2013 (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K, filed July 29, 2013 with the SEC).
10.2 +	Amendment to Employment Agreement between Sonus Networks, Inc. and Matthew Dillon, accepted July 26, 2013 (incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K, filed July 29, 2013 with the SEC).
10.3 +	Employment Agreement between Sonus Networks, Inc. and Mark T. Greenquist, accepted October 24, 2013 (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K, filed October 29, 2013 with the SEC).
31.1 *	Certificate of Sonus Networks, Inc. Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 *	Certificate of Sonus Networks, Inc. Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 *	Certificate of Sonus Networks, Inc. Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 *	Certificate of Sonus Networks, Inc. Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

+ Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: October 31, 2013

SONUS NETWORKS, INC.

By: /s/ Maurice L. Castonguay

Maurice L. Castonguay
Senior Vice President and Chief Financial Officer (Principal
Financial Officer and Principal Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Description
10.1 +	Amendment to Employment Agreement between Sonus Networks, Inc. and Maurice Castonguay, accepted July 26, 2013 (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K, filed July 29, 2013 with the SEC).
10.2 +	Amendment to Employment Agreement between Sonus Networks, Inc. and Matthew Dillon, accepted July 26, 2013 (incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K, filed July 29, 2013 with the SEC).
10.3 +	Employment Agreement between Sonus Networks, Inc. and Mark T. Greenquist, accepted October 24, 2013 (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K, filed October 29, 2013 with the SEC).
31.1 *	Certificate of Sonus Networks, Inc. Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 *	Certificate of Sonus Networks, Inc. Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 *	Certificate of Sonus Networks, Inc. Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 *	Certificate of Sonus Networks, Inc. Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

+ Management contract or compensatory plan or arrangement.

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

I, Raymond P. Dolan, certify that:

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

Date: October 31, 2013

/s/ Raymond P. Dolan

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

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

I, Maurice L. Castonguay, certify that:

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

Date: October 31, 2013

/s/ Maurice L. Castonguay

Maurice L. Castonguay
Senior Vice President and Chief Financial Officer (Principal Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Sonus Networks, Inc. (the "Company") for the period ended September 27, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Raymond P. Dolan, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

Date: October 31, 2013

/s/ Raymond P. Dolan

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

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Sonus Networks, Inc. (the "Company") for the period ended September 27, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Maurice L. Castonguay, Senior Vice President and Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

Date: October 31, 2013

/s/ Maurice L. Castonguay

Maurice L. Castonguay
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)