

UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

■■■■■■■■■■ INDIVIDUALLY AND ON
BEHALF OF ALL OTHERS SIMILARLY
SITUATED,

Plaintiff,

vs.

SONUS NETWORKS, INC., RAYMOND P.
DOLAN, AND MARK T. GREENQUIST,

Defendants.

CASE No.:

CLASS ACTION COMPLAINT
FOR VIOLATIONS OF THE FEDERAL
SECURITIES LAWS

JURY TRIAL DEMANDED

Plaintiff ■■■■■■■■ (“Plaintiff”), individually and on behalf of all other persons similarly situated, by Plaintiff’s undersigned attorney, for Plaintiff’s Complaint against Defendants, alleges the following based upon personal knowledge as to Plaintiff and Plaintiff’s own acts, and upon information and belief as to all other matters based on the investigation conducted by and through Plaintiff’s attorney, which included, among other things, a review of Securities and Exchange Commission (“SEC”) filings by Sonus Networks, Inc. (“Sonus” or the “Company”), as well as media and analyst reports about the Company. Plaintiff believes that substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a securities class action on behalf of all purchasers of Sonus securities between October 23, 2014 and March 24, 2015, inclusive (the “Class Period”), who were damaged thereby. Plaintiff seeks to pursue remedies against Sonus and its most senior executives under §§10(b) and 20(a) of the Securities Exchange Act of 1934 (the “Exchange Act”), and Rule 10b-5 promulgated thereunder.

JURISDICTION AND VENUE

2. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act, 15 U.S.C. §§ 78j(b), 78b-1 and 78t(a), and Rule 10b-5 promulgated thereunder by the SEC, 17 C.F.R. §240.10b-5.

3. This Court has jurisdiction over the subject matter of this action pursuant to Section 27 of the Exchange Act (15 U.S.C. § 78aa) and 28 U.S.C. § 1331.

4. Venue is proper in this Judicial District pursuant to Section 27 of the Exchange Act (15 U.S.C. § 78aa) and 28 U.S.C. § 1391(b) as part of the conduct complained of herein occurred and Defendant Sonus conducts business in this District.

5. In connection with the acts alleged in this Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the national securities markets.

PARTIES

6. Plaintiff [REDACTED] as set forth in the accompanying certification, incorporated by reference herein, purchased Sonus securities during the Class Period and has been damaged thereby.

7. Defendant Sonus is organized under the laws of the Delaware and headquartered in Massachusetts. Sonus maintains an office in this District in Freehold, New Jersey. Sonus provides networked solutions from communications service providers and enterprises, bringing intelligence and security to real-time communications. The Company's common stock is listed on the NASDAQ, an efficient market, under the ticker symbol "SONS".

8. Defendant Raymond P. Dolan ("Dolan") is, and was throughout the Class Period, Sonus' Chief Executive Officer ("CEO") and President.

9. Defendant Mark Greenquist ("Greenquist") is, and was throughout the Class Period, Sonus' Chief Financial Officer ("CFO").

10. The Defendants Dolan and Greenquist collectively are referred to herein as the "Individual Defendants." Sonus and the Individual Defendants are referred to herein, collectively, as "Defendants."

CLASS ACTION ALLEGATIONS

11. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a class consisting of all purchasers of Sonus securities during the Class Period that suffered compensable damages related to the securities violations alleged herein (the "Class"). Excluded from the Class are Defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest.

12. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Sonus securities and other publicly-traded securities were actively traded on the NASDAQ. While the exact number of Class members is unknown to

Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are hundreds of thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Sonus or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

13. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law that is complained of herein.

14. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation.

15. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

(a) whether the federal securities laws were violated by Defendants as alleged herein;

(b) whether statements made by Defendants misrepresented material facts about the business, operations and management of Sonus;

(c) whether omissions made by Defendants misrepresented material facts about the business, operations and management of Sonus; and

(d) to what extent the members of the Class have sustained damages and the proper measure of damages.

16. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the

damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

SUBSTANTIVE ALLEGATIONS

Defendants' False and Misleading Class Period Statements

17. The Class Period begins on October 23, 2014, when the Company held a conference call to discuss the financial results from the third quarter of 2014. During this call, Defendant Greenquist stated:

- “The takeaway here is that we have been consistently meeting or exceeding our top and bottom line guidance...”
- “And then one final comment on our outlook, based on the visibility we have now, *we are also comfortable with the current consensus estimates for the first quarter of next year of \$74 million in revenue and a penny of non-GAAP EPS*. I wanted to mention this, since there is understandably a fairly wide range of expectations out there right now, and of course, this view can change, and if it does, we will update it when we provide our annual guidance for 2015 on our February Q4 earnings call.” (Emphasis added).
- “[A]ll we really wanted to say was, with regard to Q1, when we look at the consensus out there, we are reasonably comfortable with what we see.”

18. On February 18, 2015, the Company issued a press release announcing its financial results for the fourth quarter of 2014, which was also filed as an exhibit to a Form 8-K filed with

the SEC. This press release, a mere five weeks prior to the close of the first quarter of 2015, reiterated guidance with more specificity and for the first quarter of 2015 and for the full year of 2015. The press release stated, in relevant part:

Outlook

The Company’s outlook is based on current indications for its business, which may change during the current quarter. Gross margin, operating expenses (opex) and EPS are presented on a non-GAAP basis. A reconciliation of the non-GAAP to GAAP outlook and a statement on the use of non-GAAP financial measures are included at the end of this press release.

	<u>Q115</u>	<u>FY15</u>
Total Company Revenue	<i>\$74 million</i>	<i>\$326 to \$330 million</i>
Gross Margin	<i>67.0%^a to 67.5%^a</i>	Not provided
Opex	<i>\$47.5 to \$48.0 million</i>	Not provided
EPS	<i>\$0.03</i>	<i>\$0.54 to \$0.58</i>
Diluted Shares Outstanding	<i>50.5 million</i>	<i>51 million</i>

(Emphasis added).

19. On the same day, the Company held a conference call to discuss the financial results for the fourth quarter of 2014. During this conference call, Defendant Greenquist reiterated the Company’s revenue guidance for the first quarter of 2015 by stating in relevant part:

Now, looking at Q1, we expect revenue to be approximately \$74 million. I would point out that our first quarter is more backend loaded than the past few years but the revenue is also far more diversified. *In short, we’re not dependent upon a single large deal in the quarter. Instead, we have a number of good sized deals in our funnel that we expect to close over the next few weeks.*

(Emphasis added).

20. The public statements Defendants made in its conference calls and press release regarding guidance for the first quarter 2015 and the full year 2015, detailed in ¶¶ 17-19, were materially false and misleading. Sonus failed to disclose that certain orders the Company

publically indicated that it expected to close during the first quarter of 2015 were not received, which would require the lowering of the Company's previously issued guidance.

21. The true facts, which were known by Defendants, but concealed from the investing public during the Class Period, were as follows:

- a) Sonus would be unable to close certain orders in the first quarter of 2015;
and
- b) Sonus would be experiencing longer decision cycles from its customers.

22. As a result of the foregoing, Defendants had led the market to expect certain expectations that were unreasonable during the Class Period.

The Truth Emerges

23. On March 24, 2015, the Company issued a press release entitled "Sonus Updates Guidance and Initiates Cost Reduction Review," which lowered its revenue guidance for the first quarter of 2015 and revealed the expected lowering of its revenue guidance for the full year. The press release states in relevant part:

WESTFORD, Mass.--(BUSINESS WIRE)-- Sonus Networks, Inc. (Nasdaq:SONS), a global leader in enabling and securing real-time communications, today announced that it is updating its previous guidance. The Company has also initiated a company-wide review of its cost structure to help ensure that it is well-positioned to continue investing in its technology development and growth initiatives, while also driving positive financial returns. *The Company no longer expects to receive certain orders this quarter that had been expected to be received at the back end of the first quarter, and believes its planned cost reduction initiatives will help better align the Company's cost structure in light of these longer decision cycles.* The Company expects to announce the results of this cost reduction review when it reports its financial results for the first quarter on April 22, 2015.

For the first quarter ending March 27, 2015, revenue is now expected to be in the range of \$47 million to \$50 million compared to previous guidance of \$74 million. First quarter non-GAAP loss per share is expected to be in the range of \$0.29 to \$0.34 compared to previous guidance of non-GAAP diluted earnings per share of \$0.03. The Company currently anticipates that revenue for the full year will be up to 25% below the midpoint of its previous annual guidance of \$326 million to \$330 million. The Company expects to continue to benefit from a strong balance sheet with at least \$100 million in cash and marketable securities and no debt at the end of the first quarter. The Company will provide further details on its recent performance and will update its outlook for the remainder of the year when it announces its first quarter results.

Ray Dolan, president and chief executive officer, said, All of us at Sonus (SONS), including the Board of Directors, our management team and our many talented employees, are fully engaged on successfully moving the Company through the current operating environment. As a result of the review announced today, we expect to achieve a cost structure that will ensure we are well-equipped to return to positive cash flow by the end of this fiscal year despite the volatility we are facing. Dolan continued, Sonus continues to benefit from strong business fundamentals that are underpinned by solid relationships with a growing number of tier one service providers around the world, leading technology and a strong balance sheet. These strengths, together with the positive feedback from current and prospective customers, give us confidence that we can move through this period and that Sonus has the right product portfolio and strategy to be the strategic supplier of choice to cloud-based network providers of the future.

(Emphasis added).

24. On this news, shares of Sonus plummeted \$4.46 per share or over 33% from its previous closing price to close at \$8.70 per share on March 24, 2015, damaging investors.

ADDITIONAL SCIENTER ALLEGATIONS

25. As alleged herein, Sonus and the Individual Defendants acted with scienter in that

they knew that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, these Defendants, by virtue of their receipt of information reflecting the true facts regarding Sonus, their control over, and/or receipt and/or modification of Sonus' allegedly materially misleading statements and/or their associations with the Company which made them privy to confidential proprietary information concerning Sonus, participated in the fraudulent scheme alleged herein.

NO SAFE HARBOR

26. Sonus' "Safe Harbor" warnings accompanying its reportedly forward looking statements ("FLS") issued during the Class Period were ineffective to shield those statements from liability. To the extent that projected revenues and earnings were included in the Company's financial reports prepared in accordance with GAAP, including those filed with the SEC on Form 8-K, they are excluded from the protection of the statutory Safe Harbor. *See* 15 U.S.C. §78u-5(b)(2)(A).

27. Defendants are also liable for any false or misleading FLS pleaded because, at the time each FLS was made, the speaker knew the FLS was false or misleading and the FLS was authorized and/or approved by an executive officer of Sonus who knew that the FLS was false. None of the historic or present tense statements made by Defendants were assumptions underlying or relating to any plan, projection or statement of future economic performance, as they were not stated to be such assumptions underlying or relating to any projection or statement of future economic performance when made, nor were any of the projections or forecasts made by

Defendants expressly related to or stated to be dependent on those historic or present tense statements when made.

**APPLICATION OF PRESUMPTION OF RELIANCE:
FRAUD ON THE MARKET**

28. Plaintiff will rely upon the presumption of reliance established by the fraud on the market doctrine in that, among other things:

(a) Defendants made public misrepresentations or failed to disclose material facts during the Class Period;

(a) The omissions and misrepresentations were material;

(b) The Company's securities traded in an efficient market;

(c) The misrepresentations alleged would tend to induce a reasonable investor to misjudge the value of the Company's securities; and

(d) Plaintiff and other members of the Class purchased Sonus securities between the time Defendants misrepresented or failed to disclose material facts and the time the true facts were disclosed, without knowledge of the misrepresented or omitted facts.

29. At all relevant times, the market for Sonus securities was efficient for the following reasons, among others:

(a) As a regulated issuer, Sonus filed periodic public reports with the SEC; and

(b) Sonus regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the major news wire services and through other wide-ranging public disclosures, such as communications with the financial press, securities analysts, and other similar reporting services.

**APPLICABILITY OF PRESUMPTION OF RELIANCE:
AFFILIATED UTE**

30. Neither Plaintiff nor the Class (defined herein) need prove reliance – either individually or as a class – because under the circumstances of this case, which involve omissions of material fact as described above, positive proof of reliance is not a prerequisite to recovery, pursuant to the ruling of the United States Supreme Court in *Affiliated Ute Citizens of Utah v. United States*, 406 U.S. 128, 92 S. Ct. 1456, 31 L. Ed. 2d 741 (1972). All that is necessary is that the facts withheld be material in the sense that a reasonable investor might have considered the omitted information important in deciding whether to buy or sell the subject security.

LOSS CAUSATION/ECONOMIC LOSS

31. The market for Sonus securities was open, well-developed and efficient at all relevant times. As a result of these materially false and misleading statements and omissions as set forth above, Sonus securities traded at artificially inflated prices during the Class Period Plaintiff and other members of the Class purchased or otherwise acquired Sonus securities relying upon the integrity of the market price of Sonus securities and market information relating to Sonus, and have been damaged thereby.

32. During the Class Period, as detailed herein, Defendants made false and misleading statements and engaged in a scheme to deceive the market and a course of conduct that artificially inflated the price of Sonus securities and operated as a fraud or deceit on Class Period purchasers of Sonus securities by misrepresenting the value of the Company's business and prospects by providing guidance figures that were unrealistic. As Defendants' misrepresentations and fraudulent conduct became apparent to the market, the price of Sonus securities fell precipitously, as the prior artificial inflation came out of the price. As a result of their purchases of Sonus

securities during the Class Period, Plaintiff and other members of the Class suffered economic loss, *i.e.*, damages, under the federal securities laws.

33. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused, or were a substantial contributing cause of, the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false or misleading statements about Sonus' business and operations. These material misstatements and omissions had the cause and effect of creating, in the market, an unrealistically positive assessment of Sonus and its business and operations, thus causing the Company's securities to be overvalued and artificially inflated at all relevant times. Defendants' materially false and misleading statements during the Class Period resulted in Plaintiff and other members of the Class purchasing Sonus securities at artificially inflated prices, thus causing the damages complained of herein. When the true facts about the Company were revealed to the market, the inflation in the price of Sonus securities was removed and the price of Sonus securities declined dramatically, causing losses to Plaintiff and the other members of the Class.

FIRST CLAIM
Violation of Section 10(b) of
The Exchange Act and Rule 10b-5
Promulgated Thereunder Against All Defendants

34. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

35. During the Class Period, Defendants disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they

contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

36. Defendants violated §10(b) of the Exchange Act and Rule 10b-5 in that they: (a) employed devices, schemes and artifices to defraud; (b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices and a course of business that operated as a fraud or deceit upon Plaintiff and others similarly situated in connection with their purchases of Sonus securities during the Class Period.

37. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Sonus securities. Plaintiff and the Class would not have purchased Sonus securities at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by Defendants' misleading statements.

SECOND CLAIM
Violation of Section 20(a) of The Exchange Act
Against the Individual Defendants

38. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

39. The Individual Defendants acted as controlling persons of Sonus within the meaning of §20(a) of the Exchange Act. By reason of their positions with the Company, and their ownership of Sonus securities, the Individual Defendants had the power and authority to cause Sonus to engage in the wrongful conduct complained of herein. Sonus controlled the Individual Defendants and all of the Company's employees. By reason of such conduct, Defendants are liable pursuant to §20(a) of the Exchange Act.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff prays for relief and judgment, as follows:

- A. Determining that this action is a proper class action, designating Plaintiff as Lead Plaintiff and certifying plaintiff as Class representative under Rule 23 of the Federal Rules of Civil Procedure and Plaintiffs counsel as Lead Counsel;
- B. Awarding compensatory damages in favor of Plaintiff and the other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;
- C. Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees;
- D. Awarding rescission or a rescissory measure of damages; and
- E. Awarding such equitable/injunctive or other relief as deemed appropriate by the Court.

JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

Dated: April 6, 2015

Respectfully submitted,