POLYCOM INC

FORM 10-Q
(Quarterly Report)

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Address	6001 AMERICA CENTER DR. SAN JOSE, CA 95002
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

or

☐ **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: 000-27978

POLYCOM, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	**94-3128324**
(State or other jurisdiction of incorporation or organization)	**(IRS employer identification number)**
6001 America Center Drive, San Jose, CA	**95002**
(Address of principal executive offices)	**(Zip Code)**

(408) 586-6000
(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.

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 in Exchange Act). Yes ☐ No ☒

There were 138,149,319 shares of the Company's Common Stock, par value $.0005, outstanding on April 25, 2014.

POLYCOM, INC.

INDEX

REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2014

PART I FINANCIAL INFORMATION

PART II OTHER INFORMATION

PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

POLYCOM, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in thousands, except share data)

	March 31, 2014	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 380,214	$ 392,629
Short-term investments	149,890	134,684
Trade receivables, net of allowance for doubtful accounts of $2,805 and $2,827 at March 31, 2014 and December 31, 2013, respectively	184,239	183,369
Inventories	103,280	103,309
Deferred taxes	37,079	37,085
Prepaid expenses and other current assets	58,982	50,352
Total current assets	913,684	901,428
Property and equipment, net	109,146	115,157
Long-term investments	65,835	56,372
Goodwill	559,234	559,460
Purchased intangibles, net	34,106	37,458
Deferred taxes	44,425	51,398
Other assets	27,654	27,757
Total assets	$ 1,754,084	$ 1,749,030
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 92,616	$ 84,640
Accrued payroll and related liabilities	32,051	40,162
Taxes payable	3,797	5,389
Deferred revenue	172,703	172,408
Current portion of long-term debt	6,250	6,250
Other accrued liabilities	76,841	77,744
Total current liabilities	384,258	386,593
Non-current liabilities		
Long-term deferred revenue	86,078	87,467
Taxes payable	12,553	12,419
Deferred taxes	150	149
Long-term debt	240,625	242,188
Other non-current liabilities	50,204	43,849
Total non-current liabilities	389,610	386,072
Total liabilities	773,868	772,665
Stockholders' equity		
Common stock, $0.0005 par value; Authorized: 350,000,000 shares; Issued and outstanding: 138,148,354 shares at March 31, 2014 and 135,159,966 shares at December 31, 2013	68	68
Additional paid-in capital	1,113,080	1,104,273
Accumulated deficit	(136,338)	(132,348)
Accumulated other comprehensive income	3,406	4,372
Total stockholders' equity	980,216	976,365
Total liabilities and stockholders' equity	$ 1,754,084	$ 1,749,030

The accompanying notes are an integral part of these condensed consolidated financial statements.

POLYCOM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands, except per share data)

	Three Months Ended	
	March 31, 2014	March 31, 2013
Revenues:		
Product revenues	$ 231,509	$ 246,129
Service revenues	97,015	92,623
Total revenues	328,524	338,752
Cost of revenues:		
Cost of product revenues	97,636	101,878
Cost of service revenues	38,903	37,777
Total cost of revenues	136,539	139,655
Gross profit	191,985	199,097
Operating expenses:		
Sales and marketing	93,968	108,715
Research and development	48,147	55,935
General and administrative	23,793	23,694
Amortization of purchased intangibles	2,492	2,502
Restructuring costs	30,343	5,423
Transaction-related costs	156	3,323
Total operating expenses	198,899	199,592
Operating loss	(6,914)	(495)
Interest and other income (expense), net:		
Interest expense	(1,474)	(407)
Other income (expense)	779	(352)
Interest and other income (expense), net	(695)	(759)
Loss from continuing operations before benefit from income taxes	(7,609)	(1,254)
Benefit from income taxes	(3,618)	(3,371)
Net income (loss) from continuing operations	(3,991)	2,117
Gain from sale of discontinued operations, net of taxes	—	459
Net income (loss)	$ (3,991)	$ 2,576
Basic net income (loss) per share:		
Net income (loss) per share from continuing operations	$ (0.03)	$ 0.01
Gain per share from sale of discontinued operations, net of taxes	—	—
Basic net income (loss) per share	$ (0.03)	$ 0.01
Diluted net income (loss) per share:		
Net income (loss) per share from continuing operations	$ (0.03)	$ 0.01
Gain per share from sale of discontinued operations, net of taxes	—	—
Diluted net income (loss) per share	$ (0.03)	$ 0.01
Number of shares used in computation of net income (loss) per share		
Basic	136,795	176,079
Diluted	136,795	179,140

The accompanying notes are an integral part of these condensed consolidated financial statements.

POLYCOM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(in thousands)

	Three Months Ended	
	March 31, 2014	March 31, 2013
Net income (loss)	$ (3,991)	$ 2,576
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(1,203)	64
Unrealized gains/losses on investments:		
Unrealized holding gains (losses) arising during the period	(7)	(12)
Net gains/losses reclassified into earnings	(1)	66
Net unrealized gains (losses) on investments	(8)	54
Unrealized gains/losses on hedging securities:		
Unrealized hedge gains (losses) arising during the period	(421)	2,957
Net gains/losses reclassified into earnings for revenue hedges	2,865	(627)
Net gains/losses reclassified into earnings for expense hedges	(2,199)	(87)
Net unrealized (losses) on hedging securities	245	2,243
Other comprehensive income (loss)	(966)	2,361
Comprehensive income (loss)	$ (4,957)	$ 4,937

The accompanying notes are an integral part of these condensed consolidated financial statements.

POLYCOM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	Three Months Ended	
	March 31, 2014	March 31, 2013
Cash flows from operating activities:		
Net income (loss)	$ (3,991)	$ 2,576
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	14,533	16,430
Amortization of purchased intangibles	3,352	3,768
Amortization of software development costs	288	—
Amortization of debt issuance costs	134	—
Amortization of discounts and premiums on investments, net	442	386
Write-down of excess and obsolete inventories	1,781	2,934
Stock-based compensation expense	5,647	17,771
Excess tax benefits from stock-based compensation expense	(1,695)	(155)
Loss on disposal of property and equipment	3,685	1,206
Net gain on sale of discontinued operations	—	(459)
Changes in assets and liabilities, net of effects of acquisitions:		
Trade receivables	(870)	17,179
Inventories	(1,752)	(525)
Deferred taxes	(1,762)	1,994
Prepaid expenses and other assets	(8,623)	(4,530)
Accounts payable	6,750	7,857
Taxes payable	4,936	(1,681)
Other accrued liabilities and deferred revenue	(3,761)	(15,351)
Net cash provided by operating activities	19,094	49,400
Cash flows from investing activities:		
Purchases of property and equipment	(10,929)	(12,757)
Capitalized software development costs for products to be sold	(1,073)	—
Purchases of investments	(90,663)	(55,754)
Proceeds from sales of investments	30,114	9,227
Proceeds from maturities of investments	35,430	68,136
Net cash received from sale of discontinued operations	—	556
Net cash paid in purchase acquisitions	—	(8,350)
Net cash provided by (used in) investing activities	(37,121)	1,058
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee option and stock purchase plans	13,295	13,206
Payments on debt	(1,562)	—
Purchase and retirement of common stock	(7,816)	(38,041)
Excess tax benefits from stock-based compensation expense	1,695	155
Net cash provided by (used in) financing activities	5,612	(24,680)
Net increase (decrease) in cash and cash equivalents	(12,415)	25,778
Cash and cash equivalents, beginning of period	392,629	477,073
Cash and cash equivalents, end of period	$ 380,214	$ 502,851

The accompanying notes are an integral part of these condensed consolidated financial statements.

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements, consisting of the condensed consolidated balance sheet s as of March 31, 2014, the condensed consolidated statements of operations for the three months ended March 31, 2014 and 2013, the condensed consolidated statements of comprehensive income for the three months ended March 31, 2014 and 2013, and the condensed consolidated statements of cash flows for the three months ended March 31, 2014 and 2013, have been prepared in accordance with accounting principles generally accepted in the United States of America in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. In addition, the condensed consolidated balance sheet at December 31, 2013 has been derived from the audited consolidated financial statements as of that date. Accordingly, these condensed consolidated financial statements do not include all of the information and footnotes typically found in the audited consolidated financial statements and footnotes thereto included in the Annual Report on Form 10-K of Polycom, Inc. and its subsidiaries (the "Company"). In the opinion of management, the accompanying unaudited financial statements have been prepared on a basis consistent with the Company's December 31, 2013 audited financial statements and all adjustments (primarily consisting of normal recurring adjustments) considered necessary for a fair statement have been included. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 reported period. Actual results could differ from tho se estimates and operating results for the three months ended March 31, 2014 and are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

Revision of Prior Period Financial Statements

During the three months ended December 31, 2013, the Company discovered an error that impacted the Company's previously issued interim and annual consolidated statements of cash flows. The error was related to the net amortization of discounts and premiums on investments not being properly reported, which resulted in understated cash flows provided by operating activities and understated or overstated cash provided by or used in investing activities in the first three quarters of 2013 and full fiscal years 2012 and 2011.

In evaluating whether t he Company's previously issued condensed consolidated statements of cash flows were materially misstated, the Company considered the guidance in ASC Topic 250, *Accounting Changes and Error Corrections* , ASC Topic 250-10-S99-1, *Assessing Materiality* , and ASC Topic 250-10-S99-2, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.* The Company concluded that this error was not material to any of the prior reporting periods, and therefore, amendments of previously filed reports were not required. However, the consolidated statements of cash flow correction would impact comparisons to prior periods. As such, the revision for the correction is reflected in the financial information of the applicable prior periods and will be reflected in future filings containing such financial information.

The following table sets forth a summary of the revision to the condensed consolidated statement of cash flows for the following period (in thousands):

	Three Months Ended March 31, 2013		
	As Previously Reported	Adjustment	As Revised
Condensed Consolidated Statement of Cash Flows			
Operating activities:			
Amortization of discounts and premiums on investments, net	$ —	$ 386	$ 386
Net cash provided by operating activities	$ 49,014	$ 386	$ 49,400
Investing activities:			
Purchases of investments	$ (55,368)	$ (386)	$ (55,754)
Net cash provided by investing activities	$ 1,444	$ (386)	$ 1,058

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company’s significant accounting policies were described in Note 1 to the audited Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013 (the “2013 Form 10-K”). With the exception of the accounting standards update discussed below, there have been no significant changes to these policies and no recent accounting pronouncements or changes in accounting pronouncements during the three months ended March 31, 2014, that are of significance or potential significance to the Company.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (“FASB”) issued an accounting standard update which clarifies that an unrecognized tax benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. In situatio ns where a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction or the tax law of the jurisdiction does not require, and the entity does not intend to use the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The guidance is effective prospectively for reporting periods beginning after December 15, 2013. The Company adopted the guidance in the three months ended March 31, 2014, and such adoption did not have a material impact on the Company’s condensed consolidated financial statements.

3. DISCONTINUED OPERATIONS

On December 4, 2012, the Company completed the disposition of the net assets of its enterprise wireless voice solutions (“EWS”) business to Mobile Devices Holdings, LLC, a Delaware limited liability corporation. The Company received cash consideration of approximately $50.7 million, resulting in a gain on sale of the discontinued operations, net of taxes, of $35.4 million, as reflected in its consolidated financial statements for the year ended December 31, 2012. In the three months ended March 31, 2013, the Company recorded an additional gain on sale of discontinued operations, net of taxes, of approximately $0.5 million as a result of the final net working capital adjustment in accordance with the Purchase Agreement. Additional cash consideration of up to $37.5 million is payable to Polycom over the next three years subject to certain conditions, including meeting certain agreed-upon EBITDA-based milestones for the fiscal years ending December 31, 2014, 2015 and 2016. These conditions were not met for the fiscal year ended December 31, 2013. Such additional cash consideration will be accounted for as a gain on sale of discontinued operations, net of taxes, when it is realized or realizable. For the three months ended March 31, 2014, there was no realized gain on sale of discontinued operations.

4. BUSINESS COMBINATIONS

On March 1, 2013 the Company completed its acquisition of certain assets of Sentri, Inc. (“Sentri”), a privately-held services company with expertise in Microsoft technologies, for approximately $8.0 million in cash, net of approximately $0.4 million cash released from an escrow account as a result of a net working capital adjustment. The total purchase price was allocated to the net tangible and intangible assets based upon their fair values at March 1, 2013 with the excess amount recorded as goodwill. The goodwill is primarily attributable to the expertise of former Sentri employees in Microsoft technologies and expected synergies from the combined company. The Company has included the financial results of Sentri in its condensed consolidated financial statements from the date of acquisition. Pro forma and actual results of operations of the acquisition were not material to the Company’s condensed consolidated financial statements.

5. ACCOUNTS RECEIVABLE FINANCING

In 2012, the Company launched a customer financing program and entered into a financing agreement (the “Financing Agreement”) with an unrelated third party financing company. The program offers channel partners, distributors, and resellers direct or indirect financing on their purchases of the Company’s products and services. Pursuant to the terms of the Financing Agreement, the Company transfers accounts receivable from these customers, without recourse, to the financing company . In return, the Company agrees to pay the financing company a fee based on a pre-defined percentage of the transaction amount financed. If the transaction meets the applicable criteria under ASC 860 and is accounted for as a sale of financial assets, the accounts receivable are excluded from the balance sheet upon the third party financing company’s payment remittance to the Company. In certain legal jurisdictions, the arrangement fees that involve maintenance services or products bundled with maintenance at one price do not qualify as a sale of financial assets in accordance with the authoritative guidance. Accordingly, accounts receivable related to these arrangements are accounted for as a secured borrowing in accordance with ASC 860, and the Company records a liability for any cash received, while maintaining the associated accounts receivable balance until the end-customer remits payment to the third-party financing company.

In the three months ended March 31, 2014, total transactions entered pursuant to the terms of the Financing Agreement were approximately $ 32.0 million, of which $31.1 million was related to the sale of the financial assets arrangement. In the three months ended March 31, 2013, total transactions entered were approximately $24.9 million, of which $22.3 million was related to the sale of the financial assets arrangement. The financing of these receivables accelerated the collection of the Company's cash and reduced its credit exposure. The amount due from the financing company as of March 31, 2014 and December 31, 2013 was approximately $19.7 million and $22.9 million, respectively, of which $19.2 million and $21.6 million, respectively, was related to the accounts receivable sold, and is included in "Trade receivables" in the Company's condensed consolidated balance sheets. Fees incurred pursuant to the Financing Agreement were approximately $0.5 million and $0.3 million for the three months ended March 31, 2014 and 2013, respectively. Those fees were recorded as reductions to revenues.

6. GOODWILL, PURCHASED INTANGIBLES, AND SOFTWARE DEVELOPMENT COSTS

Goodwill

The following table presents the changes to the Company's goodwill by segment during the three months ended March 31, 2014 (in thousands):

	Americas	EMEA	APAC	Total
Balance at December 31, 2013	$ 308,159	$ 101,882	$ 149,419	$ 559,460
Foreign currency translation	—	—	(226)	(226)
Balance at March 31, 2014	$ 308,159	$ 101,882	$ 149,193	$ 559,234

Purchased Intangible Assets and Software Development Costs

The following table presents details of the Company's total purchased intangible assets and capitalized software development costs as of the following period s (in thousands):

	March 31, 2014			December 31, 2013		
	Gross Value	Accumulated Amortization & Impairment	Net Value	Gross Value	Accumulated Amortization & Impairment	Net Value
Core and developed technology	$ 81,178	$ (77,793)	$ 3,385	$ 81,178	$ (76,952)	$ 4,226
Customer and partner relationships	79,525	(51,248)	28,277	79,525	(48,941)	30,584
Non-compete agreements	1,800	(650)	1,150	1,800	(500)	1,300
Trade name	3,400	(3,124)	276	3,400	(3,089)	311
Other	4,462	(4,362)	100	4,462	(4,343)	119
Finite-lived intangible assets	170,365	(137,177)	33,188	170,365	(133,825)	36,540
Indefinite-lived trade name	918	—	918	918	—	918
Total acquired intangible assets	$ 171,283	$ (137,177)	$ 34,106	$ 171,283	$ (133,825)	$ 37,458
Software development costs for products to be sold	$ 3,474	$ (484)	$ 2,990	$ 2,365	$ (196)	$ 2,169

Purchased intangibles include a purchased trade name of $0.9 million with an indefinite life as the Company expects to generate cash flows related to this asset indefinitely. Consequently, this trade name is not amortized but is reviewed for impairment annually or sooner when indicators of potential impairment exist.

The following table summarizes the amortization expenses recorded in the following periods (in thousands):

	Three Months Ended	
	March 31, 2014	March 31, 2013
Amortization of purchased intangibles in revenues	$ 19	$ 18
Amortization of purchased intangibles in cost of product revenues	841	1,248
Amortization of purchased intangibles in operating expenses	2,492	2,502
Total amortization expenses of purchased intangibles	$ 3,352	$ 3,768

Amortization of purchased intangibles is not allocated to the Company's segments.

The estimated future amortization expense as of March 31, 2014 is as follows (in thousands):

Year ending December 31,		Amount
Remainder of 2014	$	9,539
2015		10,495
2016		8,484
2017		4,670
2018		—
Total	$	33,188

In the three months ended March 31, 2014, the Company capitalized approximately $1.1 million of software development costs for internally developed software products to be marketed and sold to customers after the point that technological feasibility has been reached and before the products are available for general release. There were no such costs capitalized in the three months ended March 31, 2013 as the development costs qualifying for capitalization were insignificant. The capitalized costs are being amortized over the estimated product useful life, generally three years, beginning when the products are available for general release. Management expects that the capitalized software development costs are recoverable from future gross profits generated by these products and services.

7. RESTRUCTURING COSTS

The Company recorded restructuring costs of $30.3 million and $5.4 million during the three months ended March 31, 2014 and 2013, respectively. Pursuant to the announcement in February 2014, management took certain actions designed to better align expenses to the Company's revenue and gross margin profile and position the Company for improved operating performance. These actions included the elimination of approximately six percent of the global workforce and reduction or elimination of certain leased facilities. The Company has recorded approximately $29.9 million in restructuring costs as of March 31, 2014 in connection with these actions and expects to record remaining charges (primarily related to certain leased facilities) through the third quarter of 2014.

The following table summarizes the changes in the Company's restructuring reserves during the three months ended March 31, 2014 (in thousands):

		Severance/Other		Facilities		Total
Balance at December 31, 2013	$	1,143	$	33,786	$	34,929
Additions to the reserve		10,557		19,786		30,343
Non-cash write-offs		—		(3,359)		(3,359)
Cash payments and other usage		(8,264)		(3,468)		(11,732)
Balance at March 31, 2014	$	3,436	$	46,745	$	50,181

As of March 31, 2014, the restructuring reserve is primarily comprised of facilities-related liabilities. The Company calculated the fair value of its facilities-related liabilities based on the discounted future lease payments less sublease assumptions. This fa ir value measurement is classified as a Level 3 measurement under ASC 820. The key assumptions used in the valuation model include discount rates, cash flow projections, and estimated sublease income. These assumptions involve significant judgment, are based on management's estimate of current and forecasted market conditions and are sensitive and susceptible to change.

8. BALANCE SHEET DETAILS

Inventories are valued at the lower of cost or market with cost computed on a first-in, first-out ("FIFO") basis. Consideration is given to obsolescence, excessive levels, deterioration and other factors in evaluating net realizable value.

Inventories consist of the following (in thousands):

		March 31, 2014		December 31, 2013
Raw materials	$	3,210	$	2,740
Work in process		1,002		840
Finished goods		99,068		99,729
	$	103,280	$	103,309

Prepaid expenses and other current assets consist of the following (in thousands):

	March 31, 2014	December 31, 2013
Non-trade receivables	$ 9,245	$ 9,251
Prepaid expenses	40,422	31,164
Derivative assets	5,448	6,748
Other current assets	3,867	3,189
	$ 58,982	$ 50,352

Deferred revenues consist of the following (in thousands):

	March 31, 2014	December 31, 2013
Short-term:		
Service	$ 171,041	$ 170,701
Product	112	307
License	1,550	1,400
	$ 172,703	$ 172,408
Long-term:		
Service	$ 82,003	$ 83,092
Product	18	—
License	4,057	4,375
	$ 86,078	$ 87,467

Other accrued liabilities consist of the following (in thousands):

	March 31, 2014	December 31, 2013
Accrued expenses	$ 20,658	$ 22,515
Accrued co-op expenses	4,159	4,629
Restructuring reserves	20,060	11,238
Warranty obligations	10,006	9,475
Derivative liabilities	6,172	6,780
Employee stock purchase plan withholdings	4,132	10,883
Other accrued liabilities	11,654	12,224
	$ 76,841	$ 77,744

9. GUARANTEES

Warranty

Changes in the warranty obligation which is included as a component of “Other accrued liabilities” on the condensed consolidated balance sheets are as follows (in thousands):

	Three Months Ended	
	March 31, 2014	March 31, 2013
Balance at beginning of period	$ 9,475	$ 10,475
Accruals for warranties issued during the period	4,165	3,619
Actual charges against warranty reserve during the period	(3,634)	(4,379)
Balance at end of period	$ 10,006	$ 9,715

Deferred Services Revenue

Changes in the deferred services revenue are as follows (in thousands):

	Three Months Ended	
	March 31, 2014	March 31, 2013
Balance at beginning of period	$ 253,793	$ 241,773
Additions to deferred services revenue	85,894	87,752
Amortization of deferred services revenue	(86,643)	(83,506)
Balance at end of period	$ 253,044	$ 246,019

Officer and Director Indemnifications

As permitted or required under Delaware law and to the maximum extent allowable under that law, the Company has certain obligations to indemnify its current and former officers and directors for certain events or occurrences while the officer or director is, or was serving, at the Company's request in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification obligations is unlimited; however, the Company has a director and officer insura nce policy that mitigates the Company's exposure and enables the Company to recover a portion of any future amounts paid. As a result of the Company's insurance policy coverage, the Company believes the estimated fair value of these indemnification obligations is not material.

Other Indemnifications

As is customary in the Company's industry, as provided for in local law in the U.S. and other jurisdictions, the Company's standard contracts provide remedies to its customers, such as defense, settlement, or payment of judgment for intellectual property claims related to the use of its products. From time to time, the Company indemnifies customers against combinations of loss, expense, or liability arising from various trigger events related to the sale and th e use of its products and services. In addition, from time to time the Company also provides protection to customers against claims related to undiscovered liabilities, additional product liability or environmental obligations.

10. DEBT

On September 13, 2013, the Company entered into a Credit Agreement (the "Credit Agreement") among the Company, certain of its subsidiaries from time to time party thereto as guarantors, the lenders from time to time party thereto and Morgan Stanley Senior Funding, Inc., a s Administrative Agent and Collateral Agent. The Credit Agreement provides for a $250.0 million term loan (the "Term Loan") maturing on September 13, 2018 (the "Maturity Date") and bears interest at the Company's option at either a base rate plus a spread of 0.50% to 1.00%, or a reserve adjusted LIBOR rate plus a spread of 1.50% to 2.00% based on the Company's consolidated leverage ratio for the preceding four fiscal quarters.

The Company entered into the Credit Agreement in conjunction with and for purposes of funding purchases of the Company's common stock pursuant to a $250.0 million modified "Dutch Auction" self-tender offer announced in September 2013. See Note 13 for further details. Interest is due and payable in arrears quarterly for loans bearing i nterest at the base rate and at the end of an interest period (or at each three month interval in the case of loans with interest periods greater than three months) in the case of loans bearing interest at the reserve adjusted LIBOR rate. The Term Loan is payable in quarterly installments of principal equal to $1.6 million which began on December 31, 2013, with the remaining outstanding principal amount of the Term Loan being due and payable on the Maturity Date. The Company may prepay the Term Loan, in whole or in part, at any time without premium or penalty. Amounts repaid or prepaid may not be reborrowed. The Term Loan is secured by substantially all the assets of certain domestic subsidiaries of the Company, subject to certain exceptions and limitations. The Company is also obligated to pay other customary closing fees, arrangement fees, and administration fees for a credit facility of this size and type. Total debt issuance costs incurred on the Term Loan were approximately $2.7 million and were recorded in "Prepaid expenses and other current assets" and "Other assets" on the condensed consolidated balance sheet and are being amortized over the life of the Term Loan.

The Credit Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict the Company's and its subsidiaries' ability to, among other things, grant liens, make investments, incur indebtedness, merge or consolidate, dispose of assets, make acquisitions, pay dividends or make distributions, repurchas e stock, enter into transactions with affiliates and enter into restrictive agreements, in each case subject to customary exceptions for a credit facility of this size and type. The Company is also required to maintain compliance with a consolidated fixed charge coverage ratio and a consolidated secured leverage ratio. The Company was in compliance with these covenants as of March 31, 2014.

The Credit Agreement includes customary events of default that include, among other things, non-payment defaults, covenant defaults, inaccuracy of representations and warranties, cross default to material indebtedness, bankruptcy and insolvency defaults, material judgment defaults, ERISA defaults and a change of control default. The occurrence of an event of default coul d result in the acceleration of the obligations under the Credit Agreement. Under certain circumstances, a default interest rate will apply on all obligations during the existence of an event of default under the Credit Agreement at a per annum rate equal to 2.00% above the applicable interest rate for any overdue principal and 2.00% above the rate applicable for base rate loans for any other overdue amounts.

At March 31, 2014, the weighted average interest rate on the Term Loan was 1.97 %, the accrued interest on the Term Loan was $0.2 million, and the current and noncurrent portion of the outstanding Term Loan was $6.3 million and $240.6 million, respectively.

The following table sets forth total interest expense recognized on the Term Loan (in thousands):

	Three Months Ended	
	March 31, 2014	March 31, 2013
Contractual interest expense	$ 1,229	$ —
Amortization of debt issuance costs	134	—
	$ 1,363	$ —

11. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Company had cash and cash equivalents of $ 380.2 million and $392.6 million at March 31, 2014 and December 31, 2013, respectively. Cash and cash equivalents consist of cash in banks, as well as highly liquid investments in money market funds, time deposits, savings accounts, commercial paper, U.S. government and agency securities, municipal securities and corporate debt securities. At March 31, 2014, the Company’s long-term investments had contractual maturities of one to two years.

In addition, the Company has short-term and long-term investments in debt securities which are summarized as follows (in thousands):

	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Balances at March 31, 2014:				
Investments-Short-term:				
U.S. government securities	$ 27,221	$ 18	$ —	$ 27,239
U.S. government agency securities	46,971	25	(3)	46,993
Non-U.S. government securities	12,879	10	—	12,889
Corporate debt securities	62,744	30	(5)	62,769
Total investments - short-term	$ 149,815	$ 83	$ (8)	$ 149,890
Investments-Long-term:				
U.S. government securities	$ 19,174	$ 8	$ (4)	$ 19,178
U.S. government agency securities	26,539	9	(13)	26,535
Corporate debt securities	20,131	7	(16)	20,122
Total investments - long-term	$ 65,844	$ 24	$ (33)	$ 65,835
Balances at December 31, 2013:				
Investments-Short-term:				
U.S. government securities	$ 19,792	$ 9	$ —	$ 19,801
U.S. government agency securities	38,388	16	(3)	38,401
Non-U.S. government securities	13,734	10	—	13,744
Corporate debt securities	62,720	22	(4)	62,738
Total investments - short-term	$ 134,634	$ 57	$ (7)	$ 134,684
Investments-Long-term:				
U.S. government securities	$ 12,252	$ 8	$ —	$ 12,260
U.S. government agency securities	30,627	12	(3)	30,636
Non-U.S. government securities	2,305	4	—	2,309
Corporate debt securities	11,152	15	—	11,167
Total investments - long-term	$ 56,336	$ 39	$ (3)	$ 56,372

As of March 31, 2014, the Company's total cash and cash equivalents and investments held in the United States totaled $212.5 million with the remaining $383.4 million held by various foreign subsidiaries outside of the United States.

Unrealized Losses

The following table summarizes the fair value and gross unrealized losses of the Company's investments, including those that are categorized as cash equivalents, with unrealized losses aggregated by type of investment instrument and length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2014 and December 31, 2013 (in thousands):

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
March 31, 2014:						
U.S. government securities	$ 9,067	$ (4)	$ —	$ —	$ 9,067	$ (4)
U.S. government agency securities	20,114	(16)	—	—	20,114	(16)
Corporate debt securities	25,167	(21)	—	—	25,167	(21)
Total investments	$ 54,348	$ (41)	$ —	$ —	$ 54,348	$ (41)
December 31, 2013:						
U.S. government agency securities	$ 5,533	$ (6)	$ —	$ —	$ 5,533	$ (6)
Corporate debt securities	9,837	(3)	1,504	(1)	11,341	(4)
Total investments	$ 15,370	$ (9)	$ 1,504	$ (1)	$ 16,874	$ (10)

The Company reviews the individual securities in its portfolio to determine whether a decline in a security's fair value below the amortized cost basis is other-than-temporary. If the decline in fair value is considered to be other-than-temporary, the cost basis of the individual security is written down to its fair value as a new cost basis and th e amount of the write-down is accounted for as a realized loss and included in earnings. During the three months ended March 31, 2014 and 2013, the Company determined that there were no investments in its portfolio that were other-than temporarily impaired.

Private Company Investments

The Company has made various strategic investments in private companies. The private company investments are carried at cost and written down to their estimated net realizable value when indications exist that these investments have been impaired. The Company did not record such impairment charges during the three months ended March 31, 2014 and 2013. The cost of these investments at both March 31, 2014 and December 31, 2013 was $2.0 million, and has been recorded in "Other assets" in the Company's condensed consolidated balance sheets.

Fair Value Measurements

Fair value is an exit price, representing the amount 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 liability. As the basis for considering such assumptions, a three-tier value hie rarchy prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require the Company to develop its own assumptions. This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. On a recurring basis, the Company measures certain financial assets and liabilities at fair value, including its marketable securities and foreign currency contracts.

The Company's cash and investment instruments are classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using inputs such as quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The types of instr uments valued based on quoted market prices for identical assets in active markets include money market funds and are generally classified within Level 1 of the fair value hierarchy.

The types of instruments valued based on other observable inputs include U.S. Treasury securities and other government agencies, corporate bonds and commercial paper. Such instruments are generally classified within Level 2 of the fair value hierarchy. Level 2 instruments are priced using quoted market prices for similar instr uments or nonbinding market prices that are corroborated by observable market data. There have been no transfers between Level 1 and Level 2 during the three months ended March 31, 2014 and 2013. The Company does not hold any investments classified as Level 3 as of March 31, 2014 and December 31, 2013.

As of March 31, 2014, the Company's fixed income available-for-sale securities include U.S. Treasury obligations and other government agency instruments (52 %), corporate bonds (24%), commercial paper (17%), non-U.S. Government securities (6%), and money market funds (1%). Included in available-for-sale securities is approximately $18.2 million of cash equivalents, which consist of investments with original maturities of three months or less and include money market funds.

The principal market where the Company executes its foreign currency contracts is the retail market in an over-the-counter environment with a relatively high level of price transparency. The market participants and the Company's counterparties are large money center banks and regional banks. The Company's foreign currency contracts valuation inputs are based on quoted prices and quoted pricing intervals from public data sources such as spot rates, interest rate differentials and credit defaul t rates, which do not involve management judgment. These contracts are typically classified within Level 2 of the fair value hierarchy.

The Company's Term Loan under its Credit Agreement is classified within Level 2 instruments as the borrowings are not actively traded and have a variable interest rate structure based upon market rates currently available to the Company for debt with similar terms and maturities. See Note 10. The Company has elected not to record its Term Loan at fair value, but has measur ed it at fair value for the disclosure purpose. At March 31, 2014, the carrying amount of the Term Loan approximated its estimated fair value based on observable market inputs.

The fair value of the Company's marketable securities and foreign currency contracts was determined using the following inputs (in thousands):

Description	Total	Fair Value Measurements at March 31, 2014 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets:			
Fixed income available-for-sale securities (a)	$ 233,916	$ 3,507	$ 230,409
Foreign currency forward contracts (b)	$ 5,448	$ —	$ 5,448
Liabilities:			
Foreign currency forward contracts (c)	$ 6,172	$ —	$ 6,172

Description	Total	Fair Value Measurements at December 31, 2013 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets:			
Fixed income available-for-sale securities (a)	$ 211,151	$ 17,596	$ 193,555
Foreign currency forward contracts (b)	$ 6,748	$ —	$ 6,748
Liabilities:			
Foreign currency forward contracts (c)	$ 6,780	$ —	$ 6,780

(a) Included in cash and cash equivalents, and short and long-term investments on the Company's condensed consolidated balance sheets.
(b) Included in short-term derivative assets as prepaid expenses and other current assets on the Company's condensed consolidated balance sheets.
(c) Included in short-term derivative liabilities as other accrued liabilities on the Company's condensed consolidated balance sheets.

The Company's current accounting policy and practice is not to offset derivative assets and liabilities in its condensed consolidated balance sheets. See Note 12.

12. FOREIGN CURRENCY DERIVATIVES

The Company maintains a foreign currency risk management program that is designed to reduce the volatility of the Company's economic value from the effects of unanticipated currency fluctuations. International operations generate both revenues and costs denominated in foreign currencies. The Company's policy is to hedge significant foreign currency revenues and costs to improve margin visibility and reduce earnings volatility associated with unexpected changes in currency.

Non-Designated Hedges

The Company hedges its net foreign currency monetary assets and liabilities primarily resulting from foreign currency denominated revenues and expenses with foreign exchange forward contracts to reduce the risk that the Company's earnings and cash flows will be adversely affected by changes in foreign currency e xchange rates. These derivative instruments are carried at fair value with changes in the fair value recorded as interest and other income (expense), net. These derivative instruments do not subject the Company to material balance sheet risk due to exchange rate movements because gains and losses on these derivatives are intended to offset remeasurement gains and losses on the hedged assets and liabilities. The Company executes non-designated foreign exchange forward contracts primarily denominated in Euros, British Pounds, Israeli Shekels, Brazilian Reals, Chinese Yuan, Japanese Yen and Mexican Pesos.

The following table summarizes the Company's notional position by currency, and approximate U.S. dollar equivalent, at March 31, 2014 of the outstanding non-designated hedges (in thousands):

	Original Maturities of 360 Days or Less				Original Maturities of Greater than 360 Days			
	Foreign Currency	USD Equivalent		Positions	Foreign Currency	USD Equivalent		Positions
Brazilian Real	5,200	$	2,298	Buy	—	$	—	—
Brazilian Real	9,374	$	4,033	Sell	—		—	—
Chinese Yuan	46,376	$	7,581	Buy	—	$	—	—
Chinese Yuan	39,267	$	6,380	Sell	—	$	—	—
Euro	26,445	$	36,444	Buy	12,308	$	16,037	Buy
Euro	52,904	$	72,958	Sell	23,600	$	30,843	Sell
British Pound	13,459	$	22,484	Buy	8,366	$	12,693	Buy
British Pound	7,712	$	12,857	Sell	17,031	$	26,037	Sell
Israeli Shekel	22,544	$	6,463	Buy	43,549	$	11,752	Buy
Israeli Shekel	57,236	$	16,399	Sell	—	$	—	—
Japanese Yen	440,575	$	4,269	Buy	—	$	—	—
Japanese Yen	851,223	$	8,290	Sell	—	$	—	—
Mexican Peso	12,359	$	948	Buy	—	$	—	—
Mexican Peso	24,961	$	1,894	Sell	—	$	—	—

The following table shows the effect of the Company's non-designated hedges in the condensed consolidated statements of operations (in thousands):

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative			
		Three Months Ended			
		March 31, 2014		March 31, 2013	
Foreign exchange contracts	Interest and other income (expense), net	$	334	$	2,333

Cash Flow Hedges

The Company's foreign exchange risk management program objective is to reduce volatility in the Company's economic value from unanticipated foreign currency fluctuations. The Company designates forward contracts as cash flow hedges of foreign currency revenues and expenses, primarily the Chinese Yuan, Euros, British Pounds and Israeli Shekels. All foreign exchange contracts are carried at fair value on the condensed consolidated balance sheets and the maximum duration of foreign exchange forward contracts does not exceed thirteen months. Speculation is prohibited by policy.

To receive hedge accounting treatment under ASC 815, *Derivatives and Hedging* , all cash flow hedging relationships are formally designated at hedge inception, and tested both prospectively and retrospectively to ensure the forward contracts are highly effective in offsetting changes to future cash flows on the hedged transactions. The Company records effective spot to spot changes in these cash flow hedges in cumulative other comprehensive income until they are reclassified to revenue, cost of revenue or operating expenses together with the hedged transaction. The time value on forward contracts is excluded from effectiveness testing and recorded to interest and other income (expense), net over the life of the contract together with any ineffective portion of the hedge.

The following table summarizes the Company's notional position by currency, and approximate U.S. dollar equivalent, at March 31, 2014 of th e outstanding cash flow hedges (in thousands):

	Original Maturities of 360 Days or Less				Original Maturities of Greater than 360 Days			
	Foreign Currency	USD Equivalent		Positions	Foreign Currency	USD Equivalent		Positions
Chinese Yuan	101,324	$	16,367	Buy	—	$	—	—
Euro	8,800	$	12,127	Buy	15,392	$	20,526	Buy
Euro	29,200	$	40,240	Sell	31,500	$	42,200	Sell
British Pound	9,500	$	15,792	Buy	12,634	$	19,868	Buy
British Pound	14,100	$	23,439	Sell	8,069	$	12,884	Sell
Israeli Shekel	19,100	$	5,468	Buy	56,951	$	15,878	Buy

The following tables show the effect of the Company's derivative instruments designated as cash flow hedges in the condensed consolidated statements of operations for the three months ended March 31, 2014 and 2013 (in thousands):

Three Months Ended March 31, 2014:	**Gain or (Loss) Recognized in OCI-Effective Portion**	**Location of Gain or (Loss) Reclassified from OCI into Income-Effective Portion**	**Gain or (Loss) Reclassified from OCI into Income-Effective Portion**	**Location of Gain or (Loss) Recognized-Ineffective Portion and Amount Excluded from Effectiveness Testing**	**Gain or (Loss) Recognized-Ineffective Portion and Amount Excluded from Effectiveness Testing (a)**
Foreign exchange contracts	$ (421)	Product revenues	$ (2,865)	Interest and other income (expense), net	$ 75
		Cost of revenues	532		
		Sales and marketing	1,080		
		Research and development	415		
		General and administrative	172		
Total	$ (421)		$ (666)		$ 75
Three Months Ended March 31, 2013:					
Foreign exchange contracts	$ 2,957	Product revenues	$ 627	Interest and other income (expense), net	$ —
		Cost of revenues	—		
		Sales and marketing	178		
		Research and development	(103)		
		General and administrative	12		
Total	$ 2,957		$ 714		$ —

(a) For both the three months ended March 31, 2014 and 2013, there were no gains or losses recognized in income due to ineffectiveness.

As of March 31, 2014, the Company estimated that all values reported in accumulated other comprehensive income (loss) will be reclassified to income within the next twelve months.

In the event the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, the related hedge gains and losses on the cash flow hedge would be immediately reclassified to interest and other income (expense), net on the consolidated statements of operations. For the three months ended March 31, 2014 and 2013, there were no such gains or losses.

The estimates of fair value are based on applicable and commonly quoted prices and prevailing financial market information as of March 31, 2014 and December 31, 2013. See Note 11 for additional information on the fair value measurements for all financial assets and liabilities, including derivative assets and derivative liabilities that are measured at fair value in the condensed consolidated financial statements on a recurring basis.

The following table shows the Company's derivative instruments measured at gross fair value as reflected in the condensed consolidated balance sheets as of the period s presented (in thousands):

	Fair Value of Derivatives Designated as Hedge Instruments		Fair Value of Derivatives Not Designated as Hedge Instruments	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Derivative assets (a):				
Foreign exchange contracts	$ 2,303	$ 4,457	$ 3,145	$ 2,291
Derivative liabilities (b):				
Foreign exchange contracts	$ 1,854	$ 4,235	$ 4,318	$ 2,545

(a) All derivative assets are recorded as prepaid and other current assets in the condensed consolidated balance sheets.
(b) All derivative liabilities are recorded as other accrued liabilities in the condensed consolidated balance sheets.

Offsetting Derivative Assets and Liabilities

The Company has entered into master netting arrangements with each of its derivative counterparties. These arrangements afford the right to net derivative assets against liabilities with the same counterparty. Under certain default provisions, the Company has the right to setoff any other amounts payable to the payee whether or not arising under this agreement. As a result of the netting provisions, the Company's maximum amount of loss under derivative transacti ons due to credit risk is limited to the net amounts due from the counterparties under the derivative contracts. Although netting is permitted, it is currently the Company's policy and practice to record all derivative assets and liabilities on a gross basis in the condensed consolidated balance sheets.

The following table sets forth the offsetting of derivative assets (in thousands):

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts Of Assets Presented In the Condensed Consolidated Balance Sheets	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Pledged	Net Amount
As of March 31, 2014:						
Foreign exchange contracts	$ 5,448	$ —	$ 5,448	$ (4,493)	$ —	$ 955
As of December 31, 2013:						
Foreign exchange contracts	$ 6,748	$ —	$ 6,748	$ (5,643)	$ —	$ 1,105

The following table sets forth the offsetting of derivative liabilities (in thousands):

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts Of Liabilities Presented In the Condensed Consolidated Balance Sheets	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Pledged	Net Amount
As of March 31, 2014:						
Foreign exchange contracts	$ 6,172	$ —	$ 6,172	$ (4,493)	$ —	$ 1,679
As of December 31, 2013:						
Foreign exchange contracts	$ 6,780	$ —	$ 6,780	$ (5,643)	$ —	$ 1,137

13. STOCKHOLDERS' EQUITY

Share Repurchase Program

From time to time, the Company's Board of Directors has approved plans under which the Company may at its discretion purchase shares of its common stock in the open market or via privately negotiated transactions. During the three months ended March 31, 2013, the Company purchased approximately 3.4 million shares of common stock in the open market for $34.2 million. The Company did not purchase any shares of common stock in the open market during the three months ended March 31, 2014. The purchase price for the shares of the Company's stock repurchased is recorded as a reduction to stockholders' equity. The excess of the cost of treasury stock that is retired over the fair value based on the calculated average price in equity is recorded as a charge to retained earnings.

In September 2013, the Company announced that its Board of Directors had authorized the repurchase of $400.0 million, or approximately 20 percent, of the Company's outstanding common stock ("Return of Capital Program"), through a $250.0 million modified "Dutch Auction" self-tender offer (the "Tender Offer") and subsequent open market purchases or privately negotiated transactions. The Company funded the program with $150.0 million in cash and its $250.0 million Term Loan (see Note 10).

Modified "Dutch Auction" Self-Tender Offer

The Tender Offer expired on October 30, 2013. The Company accepted for payment an aggregate of 27.4 million shares of its common stock at a purchase price of $10.40 per share, for an aggregate cost of approximately $285.4 million, excluding fees and expenses relating to the Tender Offer. The excess of the purchase price over the fai r value on the date the shares were tendered was not material and no charge was recorded in the Company's consolidated statements of operations. The costs associated with the Tender Offer were accounted for as an adjustment to the stockholders' equity.

Accelerated Share Repurchase Agreements

On December 4, 2013, the Company entered into separate accelerated share repurchase ("ASR") agreements with two financial institutions to repurchase an aggregate of $114.6 million of common stock as part of the last phase of the Company's $400.0 million Return of Capital Program. Under the terms of the ASR agreements, the Company paid an aggregate $114.6 million of cash and received an initial delivery of approximately 8.0 million shares on December 5, 2013 that were valued at approximately $86.7 million, based on the closing price of the Company's stock on the date of delivery. Those initially repurchased shares were retired and accounted for as a reduction to stockholders' equity. The final number of shares to be repurchased will be based on the Company's volume-weighted average stock price ("VWAP") less an agreed upon discount during the term of the transactions. The purchase price for the shares to be settled pursuant to the holdback provision of the ASR agreements was approximately $27.9 million, based on the closing price of the Company's stock on December 5, 2013, and was accounted for as a forward contract indexed to the Company's own common stock, which was classified as an equity instrument and was recorded as a decrease in additional paid-in capital. The costs associated with the ASR transactions were recorded as an adjustment to the stockholders' equity. Additionally, the Company accounted for the ASR transactions as repurchases of common stock for the purpose of calculating its earnings per share. The transactions are expected to be completed by June 30, 2014 or earlier at the option of the counterparties, or later under certain circumstances. The terms of the ASR agreements are subject to changes if the Company were to enter into or announce certain types of transactions. If the Company is obligated to make an adjustment payment to the counterparties upon settlement, based on the VWAP, the Company may elect to satisfy such obligation in cash or in shares of Polycom's common stock.

Accumulated Other Comprehensive Income

The following table summarizes the changes in accumulated other comprehensive income, net of tax, by component for the three months ended March 31, 2014 (in thousands). The tax effects were not shown separately, as the impacts were not material.

Three Months Ended March 31, 2014	Unrealized Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Available-for-Sale Securities	Foreign Currency Translation	Total
Balance as of December 31, 2013	$ 80	$ 73	$ 4,219	$ 4,372
Other comprehensive income (loss) before reclassifications	(421)	(7)	(1,203)	(1,631)
Amounts reclassified from accumulated other comprehensive income (a)	666	(1)	—	665
Net current-period other comprehensive income (loss)	245	(8)	(1,203)	(966)
Balance as of March 31, 2014	$ 325	$ 65	$ 3,016	$ 3,406

(a) See Note 12 of Notes to Condensed Consolidated Financial Statements for details of gains and losses, net of taxes, reclassified out of accumulated other comprehensive income into net income related to cash flow hedges and each line item of net income affected by the reclassification. Gains and losses related to available-for-sale securities were reclassified into “Other income (expense)” in the condensed consolidated statement of operations for the three months ended March 31, 2014, net of taxes.

14. STOCK-BASED COMPENSATION

The following table summarizes stock-based compensation expense recorded for the three months ended March 31, 2014 and 2013 and its allocation within the condensed consolidated statements of operations (in thousands):

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Cost of sales - product	$ 640	$ 861
Cost of sales - service	961	1,476
Stock-based compensation expense included in cost of sales	1,601	2,337
Sales and marketing	391	6,636
Research and development	1,042	4,721
General and administrative	2,613	4,077
Stock-based compensation expense included in operating expenses	4,046	15,434
Stock-based compensation expense related to employee equity awards and employee stock purchases	5,647	17,771
Tax benefit	985	3,895
Stock-based compensation expense related to employee equity awards and employee stock purchases, net of tax	$ 4,662	$ 13,876

Stock-based compensation expense is not allocated to segments because it is centrally managed at the corporate level.

Stock Options

There were no stock options granted in the three months ended March 31, 2014 and 2013.

Performance Shares and Restricted Stock Units

During the three months ended March 31, 2014 and 2013, the Company granted 450,580 and 1,217,185, respectively, of performance shares to certain employees a nd executives, at a weighted average fair value of $13.87 and $8.76 per share, respectively. The 2014 and 2013 grants are generally divided evenly over three annual performance periods commencing with calendar year 2014 and 2013, respectively.

During the three months ended March 31, 2014 and 2013, the Company granted 2,582,618 and 2,299,772, respectively, of restricted stock units at a weighted average fair value of $12.97 and $9.38 per share, respectively.

During the three months ended March 31, 2014 and 2013, there were no restricted stock units granted to non-employee directors.

Employee Stock Purchase Plan

During the three months ended March 31, 2014 and 2013, 1,696,177 and 1,634,299 shares were purchased under ESPP, respectively. As of March 31, 2014, there were 3,562,959 shares available to be issued under the Company's employee stock purchase plan ("ESPP").

Valuation Assumptions

For purchase rights granted pursuant to the ESPP, the estimated fair value per share of employee stock purchase rights for the two-year offering period commencing on February 3, 2014 ranged from $2.82 to $4.48, compared to the estimated fair value per share from $2.93 to $4.57 for the two-year offering period commencing on February 1, 2013.

The fair value of each employee stock purchase right grant is estimated on the date of grant using the Black-Scholes option valuation model and is recognized as expense using the graded vesting method using the following assumptions:

	Three Months Ended	
	March 31, 2014	**March 31, 2013**
Expected volatility	32.30-42.11%	44.76-50.55%
Risk-free interest rate	0.07-0.30%	0.11-0.27%
Expected dividends	0.0%	0.0%
Expected life (yrs)	0.5-2.0	0.5-2.0

The Company computed its expected volatility assumption based on blended volatility (50% historical volatility and 50% implied volatility). The selection of the blended volatility assumption was based upon the Company's assessment that blended volatility is more representative of the Company's future stock price trends as it weighs in the longer term historical volatility with the near term future implied volatility.

The risk-free interest rate assumption is based upon observed interest rates appropriate for the expected life of the Company's employee stock purchases.

The dividend yield assumption is based on the Company's history of not paying dividends and future expectation of dividend payouts.

The expected life of employee stock purchase rights represents the contractual terms of the underlying program.

During the three months ended March 31, 2014, the Company performed its annual review of assumptions which resulted in an increase in the forfeiture rate. The effect of the change in the forfeiture rate decreased stock-based compensation expense by approximately $1.8 million which decreased net loss by approximately $1.4 million or $0.01 per share in the three months ended March 31, 2014. The Company does not expect a material impact from the change in the forfeiture rate during the remainder of 2014. Additionally, during the three months ended March 31, 2014, the Company recorded a benefit of $2.1 million related to actual forfeitures of awards granted to former officers.

15. NET INCOME (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted net income (loss) per share for the periods presented (in thousands, except for per-share amounts):

	Three Months Ended	
	March 31, 2014	March 31, 2013
Numerator		
Net income (loss) from continuing operations	$ (3,991)	$ 2,117
Gain from sale of discontinued operations, net of taxes	—	459
Net income (loss)	$ (3,991)	$ 2,576
Denominator		
Weighted average shares outstanding, basic	136,795	176,079
Effect of dilutive potential common shares	—	3,061
Weighted average shares outstanding, diluted	136,795	179,140
Basic net income (loss) per share		
Net income (loss) per share from continuing operations	$ (0.03)	$ 0.01
Gain per share from sale of discontinued operations, net of taxes	—	—
	$ (0.03)	$ 0.01
Diluted net income (loss) per share		
Net income (loss) per share from continuing operations	$ (0.03)	$ 0.01
Gain per share from sale of discontinued operations, net of taxes	—	—
	$ (0.03)	$ 0.01
Antidilutive employee stock-based awards, excluded	5,855	1,717

Diluted shares outstanding include the dilutive effect of in-the-money employee equity share options, unvested performance shares, restricted stock units, and stock purchase rights under ESPP. The dilutive effect of such equity awards is calculated based on the average share price for each fiscal period using the treasury stock method. Potentially dilutive shares are excluded from the computation of diluted net income (loss) per share when their effect is antidilutive.

16. BUSINESS SEGMENT INFORMATION

The Company conducts its business globally and is managed geographically in three segments: (1) Americas, which consist of North America and Caribbean and Latin America (“CALA”) reporting units, (2) Europe, Middle East and Africa (“EMEA”) and (3) Asia Pacific (“APAC”). The segments are determined in accordance with how management views and evaluates the Company’s business and allocates its resources, and based on the criteria as outlined in the authoritative guidance.

Segment Revenue and Profit

Segment revenues are attributed to a theater based on the ordering location of the customer. A significant portion of each segment’s expenses arise from shared services and infrastructure that Polycom has historically allocated to the segments in order to realize ec onomies of scale and to use resources efficiently.

Segment contribution margin includes all geographic segment revenues less the related cost of sales and direct sales and marketing expenses. Management allocates some infrastructure costs, such as facilities and IT costs, in determining segment contribution margins. Contribution margin is used, in part, to evaluate the performance of, and allocate resources to, each of the segments. Certain operating expenses are not allocated to segments because they are separately managed at the corporate level. These unallocated costs include corporate manufacturing costs, sales and marketing costs other than direct sales and marketing expenses, research and development expenses, general and administrative costs, such as legal and accounting, stock-based compensation costs, transaction-related costs, amortization of purchased intangibles, restructuring costs and interest and other income (expense), net.

Segment Data

The results of the reportable segments are derived directly from Polycom's management reporting system. The results are based on Polycom's method of internal reporting and are not reported in conformity with accounting principles generally accepted in the United States. Management measures the performance of each segment based on several metrics, including contribution margin as defined above. For internal reporting purposes and determination of segment contribution margins, geographic segment revenues may differ slightly from actual geographic revenues due to internal revenue allocations between the Company's segments. Asset data, with the exception of gross accounts receivable, is not reviewed by management at the segment level.

Financial information for each reportable geographical segment as of March 31, 2014 and December 31, 2013 and for the three months ended March 31, 2014 and 2013, based on the Company's internal management reporting system and as utilized by the Company's Chief Executive Officer who is its Chief Operating Decision Maker ("CODM"), is as follows (in thousands):

	Americas	EMEA	APAC	Total
For the three months ended March 31, 2014:				
Revenue	$ 163,070	$ 89,036	$ 76,418	$ 328,524
% of total revenue	*50 %*	*27 %*	*23 %*	*100 %*
Contribution margin	69,973	37,666	31,655	139,294
% of segment revenue	*43 %*	*42 %*	*41 %*	*42 %*
For the three months ended March 31, 2013:				
Revenue	$ 170,981	$ 89,092	$ 78,679	$ 338,752
% of total revenue	*51 %*	*26 %*	*23 %*	*100 %*
Contribution margin	69,229	37,560	30,845	137,634
% of segment revenue	*40 %*	*42 %*	*39 %*	*41 %*
As of March 31, 2014: Gross accounts receivable	$ 91,399	$ 71,734	$ 60,917	$ 224,050
% of total gross accounts receivable	*41 %*	*32 %*	*27 %*	*100 %*
As of December 31, 2013: Gross accounts receivable	86,243	71,970	66,921	225,134
% of total gross accounts receivable	*38 %*	*32 %*	*30 %*	*100 %*

During the three months ended March 31, 2014 and 2013, one customer from the Americas segment, ScanSource Communications ("ScanSource"), accounted for 18% and 17%, respectively, of the Company's revenues. At March 31, 2014 and December 31, 2013, ScanSource accounted for 15% and 11%, respectively, of total gross accounts receivable.

The reconciliation of segment information to Polycom consolidated totals is as follows (in thousands):

	Three Months Ended	
	March 31, 2014	March 31, 2013
Segment contribution margin	$ 139,294	$ 137,634
Corporate and unallocated costs	(106,600)	(107,705)
Stock-based compensation	(5,647)	(17,771)
Effect of stock-based compensation cost on warranty expense	(129)	(157)
Transaction-related costs	(156)	(3,323)
Amortization of purchased intangibles	(3,333)	(3,750)
Restructuring costs	(30,343)	(5,423)
Interest and other income (expense), net	(695)	(759)
Loss from continuing operations before benefit from income taxes	$ (7,609)	$ (1,254)

	March 31, 2014	December 31, 2013
Gross accounts receivables	$ 224,050	$ 225,134
Returns and related reserves	(37,006)	(38,938)
Allowance for doubtful accounts	(2,805)	(2,827)
Total trade receivables, net	$ 184,239	$ 183,369

The following table summarizes the Company's revenues by groups of similar products and services as follows (in thousands):

	Three Months Ended	
	March 31, 2014	March 31, 2013
Revenues:		
UC group systems	$ 213,372	$ 232,426
UC personal devices	56,474	49,246
UC platform	58,678	57,080
Total	$ 328,524	$ 338,752

17. INCOME TAXES

The following table presents the income tax benefit from continuing operations and the effective tax rates (in thousands):

	Three Months Ended	
	March 31, 2014	March 31, 2013
Income tax benefit from continuing operations	$ (3,618)	$ (3,371)
Effective tax rate	47.5%	268.8%

For the three months ended March 31, 2014 and 2013, the Company recorded income tax benefits of $3.6 million and $3.4 million, respectively. The effective tax rates for the three months ended March 31, 2014 and 2013 were 47.5% and 268.8%, respectively, and differ from the U.S. federal statutory rate of 35% primarily due to impacts associated with proportional earnings from the Company's operations in lower tax jurisdictions, recurring permanent adjustments, and discrete benefits recorded during the quarters. For the three months ended March 31, 2014, a discrete benefit of $1.3 million was recorded for tax benefits realized on disqualifying dispositions of stock from the Company's employee stock purchase plan, and a discrete tax benefit of $0.9 million was recorded as a result of stock-based compensation expense adjustments related to certain terminated employees. For the three months ended March 31, 2013, a discrete benefit of $2.2 million was recorded related to the reinstatement of the federal research and development tax credit signed into law on January 2, 2013, but retroactive to 2012, and a discrete benefit of $0.8 million was recorded for tax benefits realized on disqualifying dispositions of stock from the Company's employee stock purchase plan.

As of March 31, 2014, the amount of gross unrecognized tax benefits was $22.1 million, all of which would affect the Company's effective tax rate if realized. The Company recognizes interest income and interest expense and penalties on tax overpayments and underpayments within income tax expense. As of March 31, 2014 and December 31, 2013, the Company had approximately $1.5 million of accrued interest and penalties related to uncertain tax positions. The Company anticipates that, except for $0.9 million in uncertain tax positions that may be reduced related to the lapse of various statutes of limitation, there will be no material changes in uncertain tax positions in the next 12 months.

18. CONTINGENCIES

From time to time, the Company is involved in claims and legal proceedings that arise in the ordinary course of business. The Company expects that the number and significance of these matters will increase as business expands. In particular, the Company expects to face an increasing number of patent and other intellectual property claims as the number of products and competitors in Polycom's industry grows and the functionality of video, voice, data and web conferencing products overlap. Any claims or proce edings against the Company, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time, result in the diversion of significant operational resources, or require the Company to enter into royalty or licensing agreements which, if required, may not be available on terms favorable to the Company or at all. If management believes that a loss arising from these matters is probable and can be reasonably estimated, the Company will record a reserve for the loss. As additional information becomes available, any potential liability related to these matters is assessed and the estimates revised. Based on currently available information, management does not believe that the ultimate outcomes of these unresolved matters, individually and in the aggregate, are likely to have a material adverse effect on the Company's financial position, liquidity or results of operations. However, litigation is subject to inherent uncertainties, and the Company's view of these matters may change in the future. Were an unfavorable outcome to occur, there exists the possibility of a material adverse impact on the Company's financial position and results of operations or liquidity for the period in which the unfavorable outcome occurs or becomes probable, and potentially in future periods.

Litigation and SEC Investigation

Following the July 23, 2013 announcement regarding the departure of the Company's former CEO, the SEC initiated an investigation, a class action lawsuit was filed, and derivative lawsuits were filed, all as described below.

SEC Investigation . In July 2013, the Company was informed that the SEC was investigating the Audit Committee's review of Mr. Miller's expenses and his resignation. The investigation is ongoing, and the SEC has requested information from the Company. The Company is cooperating with the investigation.

Class Action Lawsuit . On July 26, 2013, a purported sharehol der class action, captioned *Neal v. Polycom Inc., et al* ., Case No.3:13-cv-03476-SC, was filed in the United States District Court for the Northern District of California against the Company and certain of its current and former officers and directors. On December 13, 2013, the Court appointed a lead plaintiff and approved lead and liaison counsel. On February 24, 2014,the lead plaintiff filed a first amended complaint. The amended complaint alleges that, between January 20, 2011 and July 23, 2013, the Company issued materially false and misleading statements or failed to disclose information regarding the Company's business, operational and compliance policies, including with respect to its former Chief Executive Officer's expense submissions and the Company's internal controls. The lawsuit further alleges that the Company's financial statements were materially false and misleading. The amended complaint alleges violations of the federal securities laws and seeks unspecified compensatory damages and other relief. The defendants filed motions to dismiss the amended complaint. At this time we are unable to estimate any range of reasonably possible loss relating to the securities class action.

Derivative Lawsuits . On August 21, 2013 and October 16, 2013, two purported shareholder derivative suits, captioned *Saraceni v. Miller, et al.* , Case No. 5:13-cv-03880, and *Donnelly v. Miller, et al* ., Case No. 5:13-cv-04810, respectively, were filed in the United States District Court for the Northern District of California against certain of the Company's current and former officers and directors. On October 31, 2013, these two federal derivative actions were consolidated into *In re Polycom, Inc. Derivative Litigation* , Lead Case No. 3:13-cv-03880. Plaintiffs filed an amended complaint on April 4, 2014.

On November 22, 2013 and December 13, 2013, two purported shareholder derivative suits, captioned *Ware v. Miller, et al.* , Case No. 1-13-cv-256608, and *Clem v. Miller, et al* ., Case No. 1-13-cv-257664, respectively, were filed in the Superior Court of California, County of Santa Clara, against certain of the Company's current and former officers and directors. On January 31, 2014, these two California state derivative actions were consolidated into *In re Polycom, Inc. Derivative Shareholder Litigation* , Lead Case No. 1-13-cv-256608. The Company has filed a motion to stay the California state derivative litigation pending resolution of both the federal derivative lawsuit and the federal securities class action.

The Federal and California state consolidated derivative lawsuits purport to assert claims on behalf of the Company, which is named as a nominal defendant in the actions. The complaints allege claims for breach of fiduciary duty, unjust enrichment, and corporate waste, and allege certain defendants failed to maintain adequate int ernal controls and issued, or authorized the issuance of, materially false and misleading statements, including with respect to the Company's former Chief Executive Officer's expense submissions and the Company's internal controls. The complaints further allege that certain defendants approved an unjustified separation agreement and caused the Company to repurchase its own stock at artificially inflated prices. The complaints seek unspecified compensatory damages, corporate governance reforms, and other relief. At this time we are unable to estimate any range of reasonably possible loss relating to the derivative actions.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

YOU SHOULD READ THE FOLLOWING DISCUSSION AND ANALYSIS IN CONJUNCTION WITH OUR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES. EXCEPT FOR HISTORICAL INFORMATION, THE FOLLOWING DISCUSSION CONTAINS FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933 AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934. WHEN USED IN THIS REPORT, THE WORDS "MAY," "BELIEVE," "COULD," "ANTICIPATE," "WOULD," "MIGHT," "PLAN," "EXPECT," "WILL," "INTEND," "POTENTIAL," "OBJECTIVE, " "STRATEGY," "SHOULD," "DESIGNED," AND SIMILAR EXPRESSIONS OR THE NEGATIVE OF THESE TERMS ARE INTENDED TO IDENTIFY FORWARD LOOKING STATEMENTS. THESE FORWARD LOOKING STATEMENTS, INCLUDING, AMONG OTHER THINGS, STATEMENTS REGARDING OUR UNIQUE POSITION AND ANTICIPATED PRODUCTS, IMPORTANT DRIVERS, CUSTOMER AND GEOGRAPHIC REVENUE LEVELS AND MIX, GROSS MARGINS, OPERATING COSTS AND EXPENSES AND OUR CHANNEL INVENTORY LEVELS, INVOLVE RISKS AND UNCERTAINTIES. OUR ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE PROJECTED IN THE FORWARD LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE FUTURE RESULTS TO DIFFER MATERIALLY FROM THOSE DISCUSSED IN THE FORWARD LOOKING STATEMENTS INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN "RISK FACTORS" IN THIS DOCUMENT, AS WELL AS OTHER INFORMATION FOUND IN THE DOCUMENTS WE FILE FROM TIME TO TIME WITH THE SECURITIES AND EXCHANGE COMMISSION, INCLUDING THE ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2013.

Overview

We are a global leader in open, standards-based unified communications and collaboration ("UC&C") solutions for voice, video and content collaboration solutions. Our solutions are powered by the Polycom ® RealPresence ® Platform, comprehensive software infrastructure and rich application programming interfaces ("APIs") that interoperate with a broad set of communication, business, mobile, and cloud applications and devices to deliver secure face-to-face video collaboration across different environments. With Polycom ® RealPresence ® collaboration solutions, from infrastructure to endpoints for all environments, people all over the world can collaborate face-to-face without being in the same physical location. Individuals and teams can connect, communicate, and collaborate through a high-definition visual experience from their desktops, meeting rooms, classrooms, home offices, mobile devices, web browsers, and specialized solutions such as video carts for healthcare applications. By removing the barriers of distance and time, connecting experts to where they are needed most, and creating greater trust and understanding through visual connection, we enable people to make better decisions faster and to increase their productivity while saving time and money and being environmentally responsible.

We sell our solutions globally through a high-touch sales model that leverages our broad network of channel partners, including distributors, value-added resellers, system integrators, leading communications services providers, and retailers. We manufacture our products through an ou tsourced model optimized for quality, reliability, and fulfillment agility.

We believe important drivers for the adoption of collaboration solutions include:

- UC&C solutions, including voice and video offerings, as a preferred method of communication,
- increasing presence of video on desktop and laptop devices,
- growth of video-capable mobile devices (including tablets and smartphones),
- growth of Microsoft Lync in the corporate environment and the resulting impact on sales of Polycom's Lync-compactible voice and video devices,
- expansion of business applications with integrated web-based video and content collaboration,
- virtualization and the move to private, public, and hybrid clouds,
- adoption of UC&C by small and medium businesses,
- growth of the number of teleworkers globally,
- new pricing models and options for video delivery, including subscription-based software pricing and as-a-service offerings,
- emergence of Bring Your Own Device (BYOD) programs in businesses of all sizes, across all regions,
- demand for UC&C solutions for business-to-business and business-to-consumer communications and the move of consumer applications into the business space, and
- continued commitment by organizations and individuals to reduce their carbon footprint and expenses by choosing video collaboration over travel.

We believe we are uniquely positioned as the UC&C ecosystem partner of choice through our strategic partnerships, support of open standards, innovative technology, multiple delivery modes and customer-centric go-to-market capabilities.

Revenues for the three months ended March 31, 2014 were $328.5 million, a decrease of $10.2 million, or 3 %, from the same period in 2013. On a year-over-year basis, our total product revenues declined while service revenues increased. The overall decrease in product revenues was primarily a result of lower sales of our UC group systems, mainly driven by lower IP conference phone revenues as a result of Cisco Systems, Inc. (“Cisco”) no longer selling a product they previously purchased from us, and, to a lesser extent, due to lower UC platform products revenues. The decreases were partially offset by increased revenues from our UC personal devices products. Our product revenues have decreased year-over-year since the first quarter of 2012, driven by lower UC group systems revenues, primarily group video products in our Americas segment. We expect this trend to continue at least in the near term. The increase in service revenues was driven primarily by increased maintenance revenues on a larger installed base and increased maintenance service renewals year-over-year as a result of ongoing efforts to increase maintenance service renewal rates.

From a segment perspective, our Americas, EMEA, and APAC segment revenues accounted for 50%, 27 %, and 23%, respectively, of our revenues in the three months ended March 31, 2014. Our Americas and APAC segment revenues decreased by 5% and 3%, respectively, and our EMEA segment revenues remained relatively flat in the three months ended March 31, 2014 as compared to the same period in 2013. On a year-over-year basis, product revenues declined and service revenues increased across all our segments. See Note 16 of Notes to Condensed Consolidated Financial Statements for further information on our segments, including a summary of our segment revenues, segment contribution margins and segment gross accounts receivable. The discussion of results of operations at the consolidated level is also followed by a discussion of results of operations by segment for the three months ended March 31, 2014 and 2013.

Operating margins de creased by 2 percentage points in the three months ended March 31, 2014 as compared to the same period in 2013. The decrease in operating margins was primarily driven by the restructuring costs associated with headcount and facilities actions taken during the quarter, and to a lesser extent, lower gross margins, offset in part by a decrease in sales and marketing and research and development expenses. Operating expenses and cost of revenues were favorably impacted in the quarter by lower stock-based compensation expense due to forfeitures related to the restructuring actions taken during the quarter and the effect of the change in our forfeiture rate. Excluding restructuring costs, operating expenses decreased as a percentage of revenues by 6%, primarily as a result of our focus on improving operating margins. Gross margins decreased by less than 1 percentage point in the three months ended March 31, 2014 as compared to the same period in 2013, primarily as a result of lower revenues and changes in product mix toward lower margin UC personal devices products in the three months ended March 31, 2014 as compared to the same period in 2013. Operating expenses as a percentage of revenues increased by 1 percentage point year-over-year, primarily due to higher restructuring charges, partially offset by decreased headcount-related costs and transaction-related costs.

During the three months ended March 31, 2014, we generated approximately $19 .1 million in cash flow from operating activities, which after the impact of investing and financing activities described in further detail under “Liquidity and Capital Resources,” resulted in a $12.4 million net decrease in our total cash and cash equivalents.

Results of Operations for the Three Months Ended March 31, 2014 and 2013

The following table sets forth, as a percentage of revenues (unless indicated otherwise) , condensed consolidated statements of operations data for the periods indicated:

	Three Months Ended	
	March 31, 2014	March 31, 2013
Revenues:		
Product revenues	70%	73%
Service revenues	30%	27%
Total revenues	100%	100%
Cost of revenues:		
Cost of product revenues as a % of product revenues	42%	41%
Cost of service revenues as a % of service revenues	40%	41%
Total cost of revenues	42%	41%
Gross profit	58%	59%
Operating expenses:		
Sales and marketing	28%	32%
Research and development	15%	16%
General and administrative	7%	7%
Amortization of purchased intangibles	1%	1%
Restructuring costs	9%	2%
Transaction-related costs	0%	1%
Total operating expenses	60%	59%
Operating loss	(2)%	(0)%
Interest and other income (expense), net:		
Interest expense	(0)%	(0)%
Other income (expense)	(0)%	(0)%
Interest and other income (expense), net	(0)%	(0)%
Loss from continuing operations before benefit from income taxes	(2)%	(0)%
Benefit from income taxes	(1)%	(1)%
Net income (loss) from continuing operations	(1)%	1%
Gain from sale of discontinued operations, net of taxes	0%	0%
Net income (loss)	(1)%	1%

Revenues

We manage our business primarily on a geographic basis, organized into three geographic segments. Our revenues, which include product and service revenues, for each segment are summarized for the periods indicated in the following table:

	Three Months Ended		
$ in thousands	**March 31, 2014**	**March 31, 2013**	**Decrease**
Americas	$ 163,070	$ 170,981	(5)%
% of revenues	*50 %*	*51 %*	
EMEA	$ 89,036	$ 89,092	—
% of revenues	*27 %*	*26 %*	
APAC	$ 76,418	$ 78,679	(3)%
% of revenues	*23 %*	*23 %*	
Total revenues	$ 328,524	$ 338,752	(3)%

The decrease in total revenues was due to a decrease in product revenues of $14.6 million, or 6%, partially offset by an increase in service revenues of $4.4 million, or 5%, in the three months ended March 31, 2014 as compared to the same period in 2013. The d ecrease in product revenues was primarily a result of lower sales of our UC group systems and UC platform products, partially offset by increased sales of our UC personal devices products year-over-year. The increase in service revenues was primarily driven by increased maintenance service revenues on a larger installed base and increased maintenance service renewals year-over-year.

The overall decrease s in the Americas and APAC segment revenues in the three months ended March 31, 2014 was driven primarily by decreased revenues across many of our key geographic markets, including the United States, Japan, China, and Brazil, partially offset by increases in Canada and Mexico. EMEA segment revenues in the three months ended March 31, 2014 remained relatively flat compared to the same period in 2013 primarily due to growth in the United Kingdom and Central Europe, partially offset by a decrease in the Nordic countries. On a year-over-year basis, our product revenues decreased and service revenues increased across all our segments during the three months ended March 31, 2014.

In 2013, Cisco informed us that it w ould end of life, and will therefore no longer resell, the IP conference phones they purchase from us. In the three months ended March 31, 2014, we generated approximately $2.5 million in revenues from this relationship, a decrease of approximately $9.0 million from the same period in 2013. We do not expect any further revenues from this relationship in 2014. The decrease in the revenues of these IP conference phones as a result of this change accounted for the majority of our year-over-year product revenue decrease in the three months ended March 31, 2014. We have been planning for the transition and are working to evolve the features and functionality of our VoIP conference phone portfolio to be interoperable in a Cisco environment.

In the three months ended March 31, 2014 and 2013, one channel partner, ScanSource Communications ("ScanSource"), located in our Americas segment, accounted for 18% and 17% of our total revenues, respectively. We believe it is unlikely that the loss of any of our channel partners would have a long term material adverse effect on our consolidated revenues or segment revenues as we believe end-users would likely purchase our products from a different channel partner. However, a loss of any one of these channel partners could have a short-term material adverse impact.

In addition to the primary view on a geographic basis, we also track revenues by groups of similar products and services for various purposes. The following table presents revenues for groups of similar products and services for the periods indicated:

	Three Months Ended		
$ in thousands	**March 31, 2014**	**March 31, 2013**	**Increase (Decrease)**
UC group systems	$ 213,372	$ 232,426	(8)%
UC personal devices	56,474	49,246	15%
UC platform	58,678	57,080	3%
Total revenues	$ 328,524	$ 338,752	(3)%

UC group systems include all immersive telepresence, group video and group voice systems products and the related service elements. The decrease in UC group systems revenues was primarily driven by decreases in sales of our group voice products and related services from our Americas segment and, to a lesser extent, decreases in sales of our group video products and related services from our Americas and APAC segments and decreased sales of immersive telepresence products and related services in our Americas and EMEA segments, partially offset by increased revenues from group voice products and related services from our EMEA segment.

UC personal devices include desktop video devices and desktop voice products and the related service elements. The increase in UC personal devices revenues was primarily due to increased sales of our desktop voice products and related services in our Americas segment, partially offset by decreased revenues from desktop video products and related services in our Americas and EMEA segments and decreased revenues from desktop voice products and related services in our APAC segment. Overall, the increase in UC personal devices revenues was due in part to increased demand for our Microsoft ® Lync ® interoperable solutions and the continued adoption of VoIP technologies.

UC platform includes our RealPresence Platform hardware and software products and the related service ele ments. The increase in UC platform revenue was driven by increased sales of our UC platform products and related services in our Americas segment, partially offset by decreased revenues from our EMEA and APAC segment.

Cost of Revenues and Gross Margins

$ in thousands	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013		Increase (Decrease)
Product Cost of Revenues	$	97,636	$	101,878	(4)%
% of Product Revenues		*42 %*		*41 %*	*1 pt*
Product Gross Margins		58%		59%	(1) pt
Service Cost of Revenues	$	38,903	$	37,777	3%
% of Service Revenues		*40 %*		*41 %*	*(1) pt*
Service Gross Margins		60%		59%	1 pt
Total Cost of Revenues	$	136,539	$	139,655	(2)%
% of Total Revenues		*42 %*		*41 %*	*1 pt*
Total Gross Margins		58%		59%	(1) pt

Cost of Product Revenues and Product Gross Margins

Cost of product revenues consists primarily of contract manufacturer costs, including material and direct labor, our manufacturing organization, tooling depreciation, warranty expense, freight expense, royalty payments, amortization of certain intangible assets, stock-bas ed compensation costs and an allocation of overhead expenses, including facilities and IT costs. Cost of product revenues and product gross margins included charges for stock-based compensation of $0.6 million and $0.9 million for the three months ended March 31, 2014 and 2013, respectively. Cost of product revenues at the segment level consists of the standard cost of product revenues and does not include items such as warranty expense, royalties, and the allocation of overhead expenses, including facilities and IT costs, as well as stock-based compensation costs and amortization of purchased intangible assets.

The overall decrease in product gross margins was primarily due to lower product sales and changes in product mix resulting in increased revenues related to UC personal devices which has lower margins than our UC group systems and UC platform products. From a segment perspective, product gross margins decreased in our EMEA and APAC segments but increased in our Americas segment in the three months ended March 31, 2014 as compared to the same period in 2013.

Cost of Service Revenues and Service Gross Margins

Cost of service revenues consists primarily of material and direct labor, including stock-based compensation costs, depreciation, and an allocation of overhead expenses, including facilities and IT costs. Cost of service revenues and service gross margins included charges for stock-based compensation expense of $1.0 million and $1.5 million for the three months ended March 31, 2014 and 2013, respectively. Cost of service revenues at the segment level consists of the standard cost of service revenues and does not include items such as warranty expense, royalties, and the allocation of overhead expenses, including facilities and IT costs, as well as stock-based compensation costs and amortization of purchased intangible assets.

Overall, service gross margins increased slightly primarily due to increased service revenues. The increase was partially offset by increased cost of services primarily driven by higher compensation costs, outside services, and IT and facilities allocations. On a year-over-year basis, service gross margins as a percentage of revenues increased across all our segments.

Total Cost of Revenues and Total Gross Margins

Overall, the decrease in total gross margin as a percentage of revenues was driven primarily by the decrease in the product gross margins, as discussed under Cost of Product Revenues and Product Gross Margins, which was primarily offset by a slight increase in service gross margins, as discussed under Cost of Service Revenues and Service Gross Margins.

We expect gross margins to remain relatively flat in the near term. Forecasting future gross margin percentages is difficult, and there are a number of risks related to our ability to maintain or improve our current gross margin levels. Our cost of revenues as a percentage of revenues can vary significantly based upon a number of factors such as the following: uncertainties surrounding revenue levels, including future pricing and/or potential discounts as a result of the economy or in response to the strengthening of the U.S. dollar in our international markets, and related production level variances; competition; the extent to which new services sales accompany our product sales as well as maintenance renewal rates; changes in technology; changes in product mix; variability of stock-based compensation costs; royalties to third parties; utilization of our professional services personnel as we develop our professional services practice and as we make investments to expand our professional services offerings; increasing costs for freight and repair costs; our ability to achieve greater efficiencies in the installations of our immersive telepresence products; manufacturing efficiencies of subcontractors; manufacturing and purchase price variances; higher prices on commodity components; warranty and recall costs; and the timing of sales.

Sales and Marketing Expenses

	Three Months Ended		
$ in thousands	**March 31, 2014**	**March 31, 2013**	**Decrease**
Expenses	$ 93,968	$ 108,715	(14)%
% of Revenues	*28 %*	*32 %*	*(4) pts*

Sales and marketing expenses consist primarily of salaries and commissions for our sales force, including stock-based compensation costs, advertising and promotional expenses, product marketing expenses, and an allocation of overhead expenses, including facilities and IT costs. Sales and marketing expenses, except for direct sales and marketing expenses, are not allocated to our segments. Sales and marketing expenses i ncluded charges for stock-based compensation expense of $0.4 million and $6.6 million for the three months ended March 31, 2014 and 2013, respectively.

The year-over-year decrease in sales and marketing expenses was primarily due to decreased headcount-related costs, including compensation expense and stock-based compensation cost, and lower headcount-based allocations, marketing program spending and travel and entertainment. Sales and marketing headcount decreased by 9% from March 31, 2013 to March 14, 2014 in order to better align costs with revenues.

We expect our sales and marketing expenses to increase in absolute dollars in the near term primarily due to increased stock-based compensation expense. Expenses will also fluctuate depending on revenue levels achieved as certain expenses, such as commissions, are determined based upon the revenues achieved. Forecasting sales and marketing expenses as a percentage of revenues is highly dependent on expected revenue levels and could vary significantly depending on actual revenues achieved in any given quarter. Marketing expenses will also fluctuate depending upon the timing and extent of marketing programs as we market new products. Sales and marketing expenses may also fluctuate due to increased international expenses and the impact of changes in foreign currency exchange rates.

Research and Development Expenses

	Three Months Ended		
$ in thousands	**March 31, 2014**	**March 31, 2013**	**Decrease**
Expenses	$ 48,147	$ 55,935	(14)%
% of Revenues	*15 %*	*16 %*	*(1) pt*

Research and development costs are expensed as incurred and consist primarily of compensation costs, including stock-based compensation costs, outside services, expensed materials, depreciation and an allocation of overhead expenses, including facilities and IT costs. Research and development costs are not allocated to our segments. Research and development expenses included charges for stock-based compensation expense of $1.0 million and $4.7 million for the three months ended March 31, 2014 and 2013, respectively.

The year-over-year decreases in research and development expenses were primarily due to decreased compensation expense, including lower stock-based compensation expense and the capitalization of certain internal costs related to internally developed software products, as well as lower program spending.

We believe that innovation and technological leadership is critical to our future success, and we are committed to continuing a significant level of research and development to develop new technologies and products to combat competitive pressures. We are also investing more heavily in research and development as a result o f increased business opportunities with strategic partners and service provider customers as a result of our key strategic initiatives in these areas. We expect that research and development expenses in absolute dollars will remain flat or increase slightly in the near term but will fluctuate depending on the timing and number of development activities in any given quarter. Research and development expenses as a percentage of revenues are highly dependent on expected revenue levels and could vary significantly depending on actual revenues achieved in any given quarter.

General and Administrative Expenses

	Three Months Ended		
$ in thousands	**March 31, 2014**	**March 31, 2013**	**Increase (Decrease)**
Expenses	$ 23,793	$ 23,694	—
% of Revenues	*7 %*	*7 %*	—

General and administrative expenses consist primarily of compensation costs, including stock-based compensation costs, professional service fees, allocation of overhead expenses, including facilities and IT costs, litigation costs and bad debt expense. General and administrative expenses are not allocated to our segments. General and administrative expenses included charges for stock-based compensation expense of $2.6 million and $4.1 million for the three months ended March 31, 2014 and 2013, respectively.

General and administrative expenses remained relatively flat in both absolute dollars and as a percentage of revenues during the three months ended March 31, 2014 as compared to the same period in 2013, primarily due to increased legal fees and higher compensation costs being largely offset by decreased stock-based compensation expense.

Significant future charges due to costs associated with litigation or uncollectability of our receivables could increase our general and administrative expenses and negatively affect our profitability in the quarter in which they are recorded. Additionally, predicting the timing of litigation and bad debt expense associated with uncollectible receivables is difficult. Future general and ad ministrative expense increases or decreases in absolute dollars are difficult to predict due to the lack of visibility of certain costs, including legal costs associated with defending claims against us, as well as legal costs associated with asserting and enforcing our intellectual property portfolio and other factors. We expect our general and administrative expenses to increase in absolute dollars in the near term primarily due to increased stock-based compensation expense but could fluctuate depending on the level and timing of expenditures associated with the litigation described in Note 18 of Notes to Condensed Consolidated Financial Statements.

Amortization of Purchased Intangibles

In each of the three months ended March 31, 2014 and 2013, we recorded approximately $2.5 million in operating expenses for amortization of purchased intangibles related to acquisitions. In addition, we recorded amortization expenses of $0.8 million and $1.3 million in the three months ended March 31, 2014 and 2013, respectively, in cost of product revenues related to certain technology intangibles. The decrease in amortization expenses included in cost of product revenues was primarily due to certain technologies acquired in prior years being fully amortized. Purchased intangible assets are being amortized over their estimated useful lives, which range from several months to eight years.

Restructuring

During the three months ended March 31, 2014 and 2013, we recorded restructuring costs of $30.3 million and $5.4 million, respectively. The increase in restructuring costs in 2014 as compared to the same period in 2013 was primarily due to certain actions taken in the three months ended March 31, 2014 that were designed to optimize the organization and manage expenses, including reduction or elimination of certain facilities globally and the elimination of approximately 6% of our global workforce as announced in February 2014. These actions are generally intended to gain operating efficiencies or reduce our operating expenses. See Note 7 of Notes to Condensed Consolidated Financial Statements for further information on restructuring costs.

We currently expect to record additional restructuring charges of between $6.0 million and $7.0 million through the third quarter of 2014, primarily related to reduction or elimination of certain facilities to gain or improve operating efficiencies and profitability. In the future, we may take additional restructuring actions to gain operating efficiencies or reduce our operating expenses, while simultaneously implementing additional cost containment measures and expense control programs. Such restructuring actions are subject to significant risks, including delays in implementing expense control programs or workforce reductions and the failure to meet operational targets due to the loss of employees, all of which would impair our ability to achieve anticipated cost reductions. If we do not achieve the anticipated cost reductions, our financial results could be negatively impacted.

Transaction-related Costs

We expense all acquisition-related and other transaction-related costs as incurred. These costs generally include legal and accounting fees and other integration services. Transaction-related costs incurred in the three months ended March 31, 2014 were less than $0.2 million. During the three months ended March 31, 2013, we recorded approximately $3.3 million of transaction-related expenses. We have spent, and may continue to spend significant resources identifying and acquiring businesses.

Interest and Other Income (Expense), Net

	Three Months Ended	
$ in thousands	**March 31, 2014**	**March 31, 2013**
Interest expense	$ (1,474)	$ (407)
Other income (expense)	779	(352)
Interest and other income (expense), net	(695)	(759)

Interest expense consists primarily of interest on our borrowings under the Credit Agreement entered into in September 2013 and imputed interest related to certain long-term obligations. Other income (expense) consists primarily of interest earned on our cash, cash equivalents, and investments less bank charges resulting from the use of our bank accounts, realized gains and losses on investments, non-income based taxes and fees, and foreign exchange related gains and losses.

The increase in interest expense year-over year was primarily due to interest expense on the borrowings under the Credit Agreement. We expect interest expense will increase in 2014 as a result of a full year of interest expense on our borrowings under the Credit Agreement.

The decrease in net other expense was primarily due to a release in the current period of sales and use tax reserves from prior years and lower non-income based taxes and fees. Other income (expense) will fluctuate due to changes in interest rates and returns on our cash and investments, any future impairment of investments, foreign currency rate fluctuations on un-hedged exposures, fluctuations in costs associated with our hedging program and timing of non-income based taxes and license fees. The cash balance could also decrease depending upon the amount of cash used in our stock repurchase activity, any future acquisitions, and other factors, which would also impact our interest income.

Income Tax Benefits From Continuing Operations

	Three Months Ended	
$ in thousands	**March 31, 2014**	**March 31, 2013**
Income tax benefit from continuing operations	$ (3,618)	$ (3,371)
Effective tax rate	48%	269%

The effective tax rate s for the three months ended March 31, 2014 and 2013 differ from the U.S. federal statutory rate of 35% primarily due to impacts associated with proportional earnings from our operations in lower tax jurisdictions, recurring permanent adjustments, and discrete benefits recorded during the quarters. For the three months ended March 31, 2014, a discrete benefit of $1.3 million was recorded for tax benefits realized on disqualifying dispositions of stock from our employee stock purchase plan, and a discrete tax benefit of $0.9 million was recorded as a result of stock-based compensation expense adjustments related to certain terminated employees. For the three months ended March 31, 2013, a discrete benefit of $2.2 million was recorded related to the reinstatement of the federal research and development tax credit signed into law on January 2, 2013, but retroactive to 2012, and a discrete benefit of $0.8 million for tax benefits realized on disqualifying dispositions of stock from our employee stock purchase plan.

As of March 31, 2014, the amount of gross unr ecognized tax benefits was $22.1 million, all of which would affect our effective tax rate if realized. We recognize interest income and interest expense and penalties on tax overpayments and underpayments within income tax expense. As of March 31, 2014 and December 31, 2013, we had approximately $1.5 million of accrued interest and penalties related to uncertain tax positions. We anticipate that, except for $0.9 million in uncertain tax positions that may be reduced related to the lapse of various statutes of limitation, there will be no material changes in uncertain tax positions in the next 12 months.

We are a U.S. based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions, and have entered into agreements with the local governments in certain foreign jurisdictions where we have significant operations to provide us with favorable tax rates in those jurisdictions if certain criteria are met. Tax benefits realized from favorable tax rates for the quarter s ended March 31, 2014 and 2013 were not material in the aggregate and did not have a material impact on earnings per share.

Unanticipated changes in our tax rates could affect our future results of operations. Our future effective tax rates, which are difficult to predict, could be unfavorably affected by changes in, or interpretation of, tax rules and regulations in the jurisdictions in which we do business, by unanticipated decreases in the amount of revenue or earnings in countries with low statutory tax rates, by lapses of the availability of the U.S. research and development tax credit, or by changes in the valuation of our deferred tax assets and liabilities. Further, the accounting for stock compensation expense in accordance with ASC 718 and uncertain tax positions in accordance with ASC 740 could result in more unpredictability and variability to our future effective tax rates.

We are also subject to the periodic examination of our income tax returns by the Internal Revenue Service and other tax authorities, and in some cases, we have received additional tax assessments. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. We may underestimate the outcome of such examinations which, if significant, would have a material adverse effect on our results of operations and financial condition. The timing of the resolution of income tax examinations is highly uncertain and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year. While it is reasonably possible that some issues in current on-going tax examinations could be resolved within the next 12 months, based on the current facts and circumstances, we cannot estimate the timing of such resolution or the range of potential changes as it relates to the unrecognized tax benefits that are recorded as part of our financial statements. We do not expect any material settlements in the next 12 months, but the outcomes of these examinations are inherently uncertain.

Discontinued Operations

On December 4, 2012, we completed the disposition of the net assets of the enterprise wireless voice solutions ("EWS") business to Mobile Devices Holdings, LLC, a Delaware limited liability corporation. We received cash consideration of approximately $50.7 million, resulting in a gain on sale of the discontinued operations, net of taxes, of $35.4 million, as reflected in our consolidated financial statements for the year ended December 31, 2012. In the three months ended March 31, 2013, we recorded an additional gain on sale of discontinued operations, net of taxes, of approximately $0.5 million as a result of a net working capital adjustment in accordance with the Purchase Agreement. Additional cash consideration of up to $37.5 million is payable to Polycom over the next three years subject to certain conditions, including meeting certain agreed-upon EBITDA-based milestones for the fiscal years ending December 31, 2014, 2015 and 2016. These conditions were not met for the fiscal year ended December 31, 2013. Such additional cash consideration will be accounted for as a gain on sale of discontinued operations, net of taxes, when it is realized or realizable. For the three months ended March 31, 2014, there was no realized gain or loss on sale of discontinued operations. See Note 3 of Notes to Condensed Consolidated Financial Statements for further discussion of our discontinued operations.

Segment Information

Our business is organized around four major geographic theatres: North America, Caribbean and Latin America ("CALA"), Europe, Middle East and Africa ("EMEA") and Asia Pacific ("APAC"). For reporting purposes, we aggregate North America and CALA into one segment named Americas and report EMEA and APAC as separate segments. The segments are determined in accordance with how management views and evaluates its business and allocates its resources, and based on the criteria as outlined in the authoritative guida nce.

A description of our products and services as well as selected financial data for each segment can be found in Note 16 of Notes to Condensed Consolidated Financial Statements. Future changes to our organizational structure or business may result in changes to the reportable segments disclosed.

Segment contribution margin includes all segment revenues less the related cost of sales and direct marketing and sales expenses. Management allocates some infrastructure costs, such as facilities and IT costs, in determining segment contribution margin. Contribution margin is used, in part, to evaluate the performance of, and to allocate resources to, each of the segments. Certain operating expenses are not allocated to segments because they are separately mana ged at the corporate level. These unallocated costs include corporate manufacturing costs, sales and marketing costs other than direct sales and marketing, stock-based compensation costs, research and development costs, general and administrative costs, such as legal and accounting costs, transaction-related costs, amortization of purchased intangible assets, restructuring costs, and interest and other income (expense), net.

The following is a summary of the financial information for each of our segments for the periods indicated (in thousands):

	Americas	EMEA	APAC	Total
For the three months ended March 31, 2014:				
Revenues	$ 163,070	$ 89,036	$ 76,418	$ 328,524
% of total revenues	*50 %*	*27 %*	*23 %*	*100 %*
Contribution margin	$ 69,973	$ 37,666	$ 31,655	$ 139,294
% of segment revenues	*43 %*	*42 %*	*41 %*	*42 %*
For the three months ended March 31, 2013:				
Revenues	$ 170,981	$ 89,092	$ 78,679	$ 338,752
% of total revenues	*51 %*	*26 %*	*23 %*	*100 %*
Contribution margin	$ 69,229	$ 37,560	$ 30,845	$ 137,634
% of segment revenues	*40 %*	*42 %*	*39 %*	*41 %*
As of March 31, 2014: Gross accounts receivable	$ 91,399	$ 71,734	$ 60,917	$ 224,050
% of total gross accounts receivable	*41 %*	*32 %*	*27 %*	*100 %*
As of December 31, 2013: Gross accounts receivable	$ 86,243	$ 71,970	$ 66,921	$ 225,134
% of total gross accounts receivable	*38 %*	*32 %*	*30 %*	*100 %*

AMERICAS

	Three Months Ended		
$ in thousands	**March 31, 2014**	**March 31, 2013**	**Increase (Decrease)**
Revenues	$ 163,070	$ 170,981	(5)%
Contribution margin	$ 69,973	$ 69,229	1%
Contribution margin as % of Americas revenues	*43 %*	*40 %*	*3 pts*

The decrease in our Americas segment revenues was primarily due to decreased revenues in the United States and Brazil, partially offset by increased revenues in Canada and Mexico. On a year-over-year basis, the decrease in Americas segment revenues was primarily driven by decreased revenues from UC group systems as a result of decreased sales in IP conference phones purchased and resold by Cisco and, to a lesser extent, lower sales in group video products and related services, partially offset by increased revenues from UC personal devices and UC platform. The increase in UC personal devices revenues was primarily due to increased desktop voice sales as a result of Lync voice deployments, partially offset by a decrease in desktop video revenues. The increase in UC platform revenues was as a result of increased sales in our RealPresence products and the related services.

In the three months ended March 31, 2014 and 2013, one channel partner in our Americas segment accounted for 35 % and 33%, respectively, of our Americas revenues. We believe it is unlikely that the loss of any of our channel partners would have a long term material adverse effect on our consolidated revenues or segment revenues as we believe end-users would likely purchase our products from a different channel partner. However, a loss of any one of these channel partners could have a short-term material adverse impact.

The increase in contribution margin as a percentage of Americas segment revenues was primarily due to higher gross margins and decreased direct sales and marketing expenses as a percentage of revenues. The increase in gross margins was primarily due to higher product gross margins driven by lower rebates and incentives while service gross margins remained relatively flat. The decrease in direct sales and marketing expenses was primarily due to lower headcount-related costs, including decreased compensation and commission expenses and lower headcount-based allocations and marketing programs spending.

EMEA

$ in thousands	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013		Increase (Decrease)
Revenues	$	89,036	$	89,092	—
Contribution margin	$	37,666	$	37,560	—
Contribution margin as % of EMEA revenues		*42 %*		*42 %*	—

Our EMEA segment revenues remain relatively flat in the three months ended March 31, 2014 as compared to the same period in 2013, primarily due to increased UC group systems revenues being substantially offset by decreased UC personal devices revenues and, to a lesser extent, by decreased UC platform revenues. The increase in UC group systems revenues was primarily due to increased revenues in group video and group voice products and the related services, partially offset by decreased revenues from immersive telepresence products and the related services. The decrease in UC personal devices revenues was primarily driven by decreased desktop video sales, partially offset by increased desktop voice sales as a result of Lync voice deployments. Revenues increased in the United Kingdom, the Middle East and Turkey, and Germany, partially offset by decreased revenues in the Nordic countries.

In the three months ended March 31, 2014 and 2013, one channel partner in our EMEA segment accounted for 13 % and 11%, respectively, of our EMEA revenues. We believe it is unlikely that the loss of any of our channel partners would have a long term material adverse effect on our consolidated revenues or segment revenues as we believe end-users would likely purchase our products from a different channel partner. However, a loss of any one of these channel partners could have a short-term material adverse impact.

Contribution margin as a percentage of EMEA segment revenues remained relatively flat for the three months ended March 31, 2014 as compared to the same period in 2013, primarily due to a slight decrease in gross margins as a percentage of revenues being largely offset by a decrease in direct sales and marketing expenses as a percentage of revenues and resulted in a less than 1% increase in contribution margin. The decrease in gross margins was driven primarily by lower product gross margin due to a product mix shift away from higher margin UC platform products. Direct sales and marketing expenses decreased as a percentage of revenues, primarily due to decreased outside services, headcount-related costs, and facilities allocations.

APAC

$ in thousands	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013		Increase (Decrease)
Revenues	$	76,418	$	78,679	(3)%
Contribution margin	$	31,655	$	30,845	3%
Contribution margin as % of APAC revenues		*41 %*		*39 %*	*2 pts*

The decrease in our APAC segment revenues was primarily driven by decreased revenues from UC group systems and, to a lesser extent, from UC personal devices and UC platform products and the related services. The decrease in UC group systems revenues in APAC was primarily driven by decreased group video revenues, partially offset by increased group voice revenues. The decrease in UC personal devices revenues was due to decreased desktop voice sales. Revenues decreased year-over-year primarily in Japan and China, partially offset by increased revenues in Australia. The overall decline in our APAC segment revenues was primarily due to continuing slowdown of government spending and softer demand, as well as a challenging macro-economic environment in the region.

In each of the three months ended March 31, 2014 and 2013, two channel partners in our APAC segment, in aggregate, accounted for 28% of our APAC revenues. We believe it is unlikely that the loss of any of our channel partners would have a long term material adverse effect on our consolidated revenues or segment revenues as we believe end-users would likely purchase our products from a different channel partner. However, a loss of any one of these channel partners could have a short-term material adverse impact.

The increase in our contribution margin as a percentage of APAC segment revenues was primarily due to lower direct sales and marketing expenses as a percentage of revenues, partially offset by a slight decrease in gross margins as a percentage of revenues. The decrease in direct sales and marketing expenses was driven by lower headcount-related costs, including compensation and commission expenses, headcount-based allocations, and lower marketing program spending. The decrease in gross margins was primarily due to decreased product gross margin as a result of lower product revenues, largely offset by an increase in service gross margin primarily driven by increased maintenance service revenues on a larger installed based and increased maintenance service renewals year-over-year.

Liquidity and Capital Resources

As of March 31, 2014, our principal sources of liquidity included cash and cash equivalents of $380.2 million, short-term investments of $149.9 million, and long-term investments of $65.8 million. Substantially all of our short-term and long-term investments are comprised of U.S. government and agency securities and corporate debt securities. See Note 11 of Notes to Condensed Consolidated Financial Statements for further information on our short-term and long-term investments. We also have outstanding letters of credit totaling approximately $7.3 million, which are in place to satisfy certain of our facility lease requirements, as well as other legal, tax, and insurance obligations.

Our total cash and cash equivalents and investments held in the United States totaled $ 212.5 million, and the remaining $383.4 million was held by various foreign subsidiaries outside of the United States as of March 31, 2014.

If we need to access our cash and cash equivalents and investments held outside of the United States in order to fund acquisitions, share repurchases, or our working capital needs, we may be subject to additional U.S. income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes.

In September 2013, we entered into a Credit Agreement (the “Credit Agreement”) among the Company, certain of its subsidiaries from time to time party thereto as guarantors, the lenders from time to time party thereto and Morgan Stanley Senior Funding, Inc., as Administrative Agent and Collateral Agent. The Credit Agreement provides for a $250.0 million term loan (the “T erm Loan”) that matures on September 13, 2018 (the “Maturity Date”). The Term Loan bears interest at our option under either a base rate formula or a LIBOR-based formula, each as set forth in the Credit Agreement. The Term Loan is payable in quarterly installments of principal equal to $1.6 million that began on December 31, 2013, with the remaining outstanding principal amount of the Term Loan being due and payable on the Maturity Date. The Credit Agreement contains certain customary affirmative and negative covenants, and we are also required to maintain compliance with a consolidated fixed charge coverage ratio and a consolidated secured leverage ratio. We entered into the Credit Agreement in conjunction with and for the purposes of funding any purchase of our common stock, up to $250.0 million in value, pursuant to the share repurchase completed in November 2013. We were in compliance with all debt covenants as of March 31, 2014. See Note 10 of Notes to Condensed Consolidated Financial Statements for further details.

We generated cash from operating activities totaling $ 19.1 million and $49.4 million in the three months ended March 31, 2014 and 2013, respectively. The decrease in cash provided by operating activities for the three months ended March 31, 2014 as compared to the same period in 2013 was primarily due to lower net income after adjusting for non-cash expenses and an increase in trade receivables, partially offset by lower accrued liabilities.

The total net change in cash and cash equivalents for the three mo nths ended March 31, 2014 was a decrease of $12.4 million. The primary uses of cash during this period were $25.1 million of net purchases of investments, $12.0 million for purchases of property and equipment and costs for internally developed software products, $7.8 million for stock repurchases to satisfy tax withholding obligations, and $1.6 million of debt payment. The primary sources of cash were $19.1 million from operating activities, $13.3 million cash proceeds from the exercise of stock options and purchases under the employee stock purchase plan, and $1.7 million from excess tax benefit.

Our days-sales-outstanding (“ DSO”) metric was 51 days and 48 days at March 31, 2014 and 2013, respectively. The increase in DSO is due in part to higher revenue linearity and increased international revenue and a resulting increase in international receivables, which typically have longer payment terms. DSO could vary as a result of a number of factors such as fluctuations in revenue linearity, an increase in international receivables, and increases in receivables from service providers and government entities, which have customarily longer payment terms. DSO could be negatively impacted in the current economic environment if our partners experience difficulty in financing purchases, which results in delays in payment to us.

Inventory turns were 5.3 turns at March 31, 2014 as compared to 5.7 turns at March 31, 2013. We believe inventory turns will fluctuate depending on our ability to reduce lead times as well as changes in product mix and a mix of ocean freight versus air freight. Our inventory turns may also decrease in the future as a result of the flexibility required to respond to customer demands.

We enter into foreign currency forward contracts, which typically mature in one month, to hedge our exposure to foreign currency fluctuations of foreign currency-denominated receivables, payables, and cash balances. We record on the condensed consolidated balance sheet at each reporti ng period the fair value of our foreign currency forward contracts and record any fair value adjustments in results of operations. Gains and losses associated with currency rate changes on contracts are recorded as interest and other income (expense), net, offsetting transaction gains and losses on the related assets and liabilities. Additionally, our hedging costs can vary depending upon the size of our hedge program, whether we are purchasing or selling foreign currency relative to the U.S. dollar and interest rates spreads between the U.S. and other foreign markets.

Additionally, we also have a hedging program that uses foreign currency forward contracts to hedge a portion of anticipated revenues, cost of revenues, and operating expenses denominated in the Euro and British Pound , as well as operating expenses denominated in Chinese Yuan and Israeli Shekel. Our foreign exchange risk management program objective is to reduce volatility in our cash flows from unanticipated foreign currency fluctuations. At each reporting period, we record the fair value of our unrealized forward contracts on the condensed consolidated balance sheet with related unrealized gains and losses as a component of cumulative other comprehensive income, a separate element of stockholders' equity. Realized gains and losses associated with the effective portion of the foreign currency forward contracts are recorded within revenues, cost of revenues, or operating expenses, depending upon the underlying exposure being hedged. Any excluded and ineffective portions of a hedging instrument would be recorded as interest and other income (expense), net.

From time to time, the Board of Directors approves plans to purchase shares of our common stock in the open market. In September 2013, our Board of Directors authorized the repurchase of $400.0 million, or approximately 20 percent of our outstanding common stock ("Return of Capital Program"), through a $250.0 million modified "Dutch Auction" self-tender offer (the "Tender Offer") and subsequent privately negotiated transactions. We funded the program with $150.0 million in cash and a $250.0 million Term Loan. The Tender Offer expired on October 30, 2013. On December 4, 2013, we announced plans to repurchase an aggregate of $114.6 million of common stock through an accelerated share repurchase ("ASR") program and entered into separate ASR agreements with two financial institutions. The ASR program represents the last phase of our $400.0 million Return of Capital Program. Under the terms of the ASR agreements, we paid an aggregate $114.6 million of cash and took an initial delivery of approximately 8.0 million shares on December 5, 2013. The final number of shares to be repurchased will be based on the Company's volume-weighted average stock price less an agreed upon discount during the term of the transactions. The transactions are expected to be completed by June 30, 2014 or earlier at the option of the counterparties, or later under certain circumstances. See Note 13 of Notes to our Condensed Consolidated Financial Statements for further details.

At March 31, 2014, we had open purchase orders related to our contract manufacturers and other contractual obligations of approximately $187.4 million primarily related to inventory purchases. We also currently have commitments that consist of obligations under our operating leases. In the event that we decide to cease using a facility and seek to sublease such facility or terminate a lease obligation through a lease buyout or other means, we may incur a material cash outflow at the time of such transaction, which will negatively impact our operating results and overall cash flows. In addition, if facilities rental rates decrease or if it takes longer than expected to sublease these facilities, we could incur a significant further charge to operations and our operating and overall cash flows could be negatively impacted in the period that these changes or events occur.

These purchase commitments and lease obligations are reflected in our Condensed Consolidated Financial Statements once goods or services have been received or at such time that we are obligated to make payments related to these goods, services or leases. In addition, our bank has issued letters of credit totaling approximately $7.3 million, which are used to secure the leases on some of our foreign offices as well as other legal, tax, and insurance obligations. The table set forth below shows, as of March 31, 2014, the future minimum lease payments due under our current lease obligations. The table below excludes approximately $12.3 million related to the current portion of minimum lease payments associated with leased space that was restructured. The non-current portion of minimum lease payments associated with leased space that was restructured is included in other long-term liabilities in the table below. In addition to these minimum lease payments, we are contractually obligated under the majority of our operating leases to pay certain operating expenses during the term of the lease, such as maintenance, taxes and insurance.

Our contractual obligations as of March 31, 2014 are as follows (in thousands):

	Minimum Lease Payments	Projected Annual Operating Lease Costs	Other Long-Term Liabilities	Purchase Commitments	Debt	Interest Payments(1)	Total
Remainder of 2014	$ 18,244	$ 3,312	$ —	$ 187,421	$ 4,687	$ 3,744	$ 217,408
2015	20,447	3,601	4,954	12	6,250	5,911	41,175
2016	14,631	2,624	6,402	—	6,250	8,271	38,178
2017	12,634	2,244	6,179	—	6,250	10,123	37,430
2018	11,008	1,821	5,910	—	223,438	7,767	249,944
Thereafter	31,787	5,170	26,759	—	—	—	63,716
Total payments	$ 108,751	$ 18,772	$ 50,204	$ 187,433	$ 246,875	$ 35,816	$ 647,851

(1) The estimated future interest payments are calculated based on the assumptions that (a) there are no other principal repayments beyond the required quarterly principal amortization and (b) the borrowings are made under LIBOR tranches and bear interest at forecasted LIBOR rates at filing plus a spread of 1.75%.

As discussed in Note 17 of our Notes to Condensed Consolidated Financial Statements, at March 31, 2014, we had unrecognized tax benefits, including related interest, totaling $23.6 million, $1.0 mill ion of which may be released in the next 12 months due to the lapse of certain statutes of limitation in the applicable tax jurisdictions. In addition, payments we make for income taxes may increase during 2014 as our available net operating losses and research and development tax credits are depleted.

We believe that our available cash, cash equivalents and investments will be sufficient to meet our operating expenses and capital requirements for the next 12 months based on our current business plans. However, we may require or desire additional funds to support our operating expenses and capital requirements or for other purposes, such as acquisitions, and may seek to raise such additional funds through public or private equity financing, debt financing o r from other sources. We cannot assure you that additional financing will be available at all or that, if available, such financing will be obtainable on terms favorable to us and would not be dilutive. Our future liquidity and cash requirements will depend on numerous factors, including the introduction of new products and potential acquisitions of related businesses or technology.

Off-Balance Sheet Arrangements

As of March 31, 2014, we did not have any off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Critical Accounting Policies and Estimates

Our significant accounting policies were described in Note 1 to our audited Consolidated Financial Statements and under “Critical Accounting Policies and Estimates” in “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, 2013. There have been no changes to our critical accounting estimates during the three months ended March 31, 2014, except for stock-based compensation as described in Note 14 of Notes to Condensed Consolidated Financial Statements. With the exception of the accounting standards update discussed below, there have been no significant changes to these policies or recent accounting pronouncements or changes in accounting pronouncements that are of potential significance to us during the three months ended March 31, 2014.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (“FASB”) issued an accounting standard update which clarifies that an unrecognized tax benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a t ax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. In situations where a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction or the tax law of the jurisdiction does not require, and the entity does not intend to use the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The guidance is effective prospectively for reporting periods beginning after December 15, 2013. We adopted the guidance in the three months ended March 31, 2014, and such adoption did not have a material impact on our condensed consolidated financial statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. We generally invest excess cash in marketable debt instruments of the U.S. government and its agencies and high-quality corporate debt securities, and by policy, limit the amount of credit exposure to any one issuer.

The estimated fair value of our cash and cash equivalents approximates the principal amounts reflected in our condensed consolidated balance sheets based on the short maturities of these financial instruments. Short-term and long-term investments consist of U.S. Treasury obligations and other government agency instruments, corporate bonds, commercial paper, non-U.S. government securities and money market funds. The valuation of our investment portfolio is subject to uncertainties that are difficult to predi ct. If current market conditions deteriorate, we may realize losses on the sale of our investments or we may incur temporary impairment charges requiring us to record unrealized losses in cumulative other comprehensive income (loss). We could also incur additional other-than-temporary impairment charges resulting in realized losses in our condensed consolidated statements of operations, which would reduce net income. We consider various factors in determining whether we should recognize an impairment charge, including the length of time and extent to which the fair value has been less than our cost basis, the financial condition and near-term prospects of the security or issuer, and our intent and ability to hold the investment for a period of time sufficient to allow any anticipated recovery in the market value. Further, if we sell our investments prior to their maturity, we may incur a charge to operations in the period the sale takes place.

A sensitivity analysis was performed on our investment portfolio as of March 31, 2014. The modeling technique used measures the change in fair values arising from hypothetical parallel shifts in the yield curve of various magnitudes. This methodology assumes a more immediate change in interest rates to reflect the curre nt economic environment.

The following table presents the hypothetical fair values of our securities, excluding cash and cash equivalents, held at March 31, 2014 that are sensitive to changes in interest rates. The modeling technique used measures the change in fair values arising from immediate parallel shifts in the yield curve of plus or minus 50 basis points (BPS), 100 BPS and 150 BPS (in thousands):

-150 BPS	-100 BPS	-50 BPS	Fair Value 3/31/2014	+50 BPS	+100 BPS	+150 BPS
$ 216,887	$ 216,500	$ 216,112	$ 215,725	$ 215,337	$ 214,950	$ 214,562

In September 2013, we entered into a Credit Agreement which provides for a $250.0 million Term Loan which matures in September 2018 and bears interest at our option of either a base rate plus a spread of 0.50% to 1.00% or a reserve adjusted LIBOR rate as defined in the Credit Agreement plus a spread of 1.50% to 2.00%. Interest is due and payable in arrears quarterly for loans bearing interest at the base rate and at the e nd of an interest period (or at each three month interval in the case of loans with interest periods greater than three months) in the case of loans bearing interest at the reserve adjusted LIBOR rate. The Term Loan is payable in quarterly installments of principal equal to $1.6 million that began on December 31, 2013, with the remaining outstanding principal amount of the Term Loan being due and payable on the Maturity Date. By entering into the Credit Agreement, we have assumed risks associated with variable interest rates based upon a variable base rate or LIBOR. As of March 31, 2014, the weighted average interest rate on the Term Loan was 1.97%. The effect of an immediate 10% change in interest rates would not have a significant impact on our results of operations.

Foreign Currency Exchange Rate Risk

While the majority of our sales are denominated in United States dollars, we also sell our products and services in certain European regions in Euros and in British Pounds, which has increased our foreign currency exchange rate fluctuation risk.

While we do not hedge for speculative purposes, as a result of our exposure to foreign currency exchange rate fluctuations, we enter into forward exchange contracts to hedge our foreign currency exposure to the Brazilian Real, Euro, British Pound, Israeli Shekel, J apanese Yen, and Mexican Peso relative to the United States Dollar. We mitigate bank counterparty risk related to our foreign currency hedging program through our policy that requires us to execute hedge contracts with banks that are among the world’s largest 100 banks, as ranked by total assets in U.S. dollars.

As of March 31, 2014, we had outstanding forward exchange contracts to sell 4.2 million Brazilian Reals at 2.41, buy 7.1 million Chinese Yuan at 5.92, sell 26.5 million Euros at 1.38, buy 5.7 million British Pounds at 1.68, sell 34.7 million Israeli Shekels at 3.49, sell 410.6 million Japanese Yen at 102.12, and sell 12.6 million Mexican Pesos at 13.31. These forward exchange contracts hedge our net position of foreign currency-denominated receivables, payables and cash balances and typically mature in 360 days or less. As of March 31, 2014, we also had net outstanding foreign exchange contracts to sell 11.3 million Euros at 1.31, sell 8.7 million British Pounds at 1.54 and buy 43.5 million Israeli Shekels at 3.71. These forward exchange contracts, carried at fair value, typically have maturities of more than 360 days.

We also have a cash flow hedging program under which we hedge a portion of anticipated revenues, cost of revenues and operating expenses denominated in the Chinese Yuan, Euro, British Pound and Israeli Shekel. As of March 31, 2014, we had outstanding foreign exchange contracts to buy 101.3 million Chinese Yuan at 6.19, sell 20.4 million Euros at 1.38, sell 4.6 million British Pounds at 1.66, and buy 19.1 million Israeli Shekels at 3.49. These forward exchange contract, carried at fair value, typically matures in 360 days or less. As of March 31, 2014, we had net outstanding foreign exchange contracts to sell 16.1 million Euros at 1.35, buy 4.6 million British Pounds at 1.53, and buy 57.0 million Israeli Shekels at 3.59. These forward exchange contracts, carried at fair value, typically have maturities of more than 360 days.

Based on our overall currency rate exposure as of March 31, 2014, a near-term 10% appreciation or depreciation in the United States Dollar, relative to our foreign local currencies, would have an immaterial impact on our results of operations. We may also decide to expand the type of products we sell in foreign c urrencies or may, for specific customer situations, choose to sell in foreign currencies in our other regions, thereby further increasing our foreign exchange risk. See Note 12 of Notes to Condensed Consolidated Financial Statements for further information on our foreign exchange derivatives.

Item 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures.

Our management evaluated, with the participation of our Chief Executive Officer and our I nterim Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and our Interim Chief Financial Officer have concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 (i) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (ii) is accumulated and communicated to Polycom’s management, including our Chief Executive Officer and our Interim Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting.

There was no change in our internal control over financial reporting that occurred during the three months ended March 31, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Litigation and SEC Investigation

The information set forth in the section entitled “Litigation and SEC Investigation” in Note 18 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Report is incorporated herein by reference.

ITEM 1A. RISK FACTORS

YOU SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED BELOW BEFORE MAKING AN INVESTMENT DECISION. THE RISKS DESCRIBED BELOW ARE NOT THE ONLY ONES WE FACE. ADDITIONAL RISKS THAT WE ARE NOT PRESENTLY AWARE OF OR THAT WE CURRENTLY BELIEVE ARE IMMATERIAL MAY ALSO IMPAIR OUR BUSINESS OPERATIONS. OUR BUSINESS COULD BE HARMED BY ANY OR ALL OF THESE RISKS. THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE SIGNIFICANTLY DUE TO ANY OF THESE RISKS, AND YOU MAY LOSE ALL OR PART OF YOUR INVESTMENT . IN ASSESSING THESE RISKS, YOU SHOULD ALSO REFER TO THE OTHER INFORMATION CONTAINED OR INCORPORATED BY REFERENCE IN OUR ANNUAL REPORT ON FORM 10-K, INCLUDING OUR CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES.

Competition in each of our markets is intense, and our inability to compete effectively could significantly harm our business and results of operations.

We face intense competition in the Americas, EMEA, and Asia Pacific for our UC&C solutions products which places pressure on average selling prices for our products. Some of our competitors compete with us in more than one geographic theater and across all of our product categories. Our major global competitor is Cisco Systems. Our other global competitors include Avaya, Blue Jeans Network, Hua wei and Logitech.

Our competitive landscape continues to rapidly evolve as we move into new markets for video collaboration such as mobile, browser-based, and cloud-delivered video. Our competitors also continue to develop and introduce new technologies, sometimes proprietary, that represent threats through closed architectures, such as Skype, Google Talk/Hangouts, and Apple FaceTime. We also compete with other offerings such as Cisco Systems’ Jabber and WebEx and Citrix Systems’ GoToMeeting with HD Faces. Many of these companies have substantial financial resources and production, marketing, engineering and other capabilities with which to develop, manufacture, market and sell their products, which may result in our having to lower our product prices and increase our spending on marketing, which would correspondingly have a negative impact on our revenues and operating margins.

Our principal competitive factors in the markets in which we presently compete include the ability to:

- provide and sell a broad range of UC&C hardware and software solutions and services, including mobile and cloud-based solutions, and our ability to bring such products to market on a timely basis;
- competitively price our products and solutions;
- provide competitive product performance;
- be successful in multiple markets with differing requirements, including, but not limited to, mobile video, social video, subscription-based video delivered from the cloud and service provider markets, and with various sizes and types of customers;
- introduce new products and solutions in a timely manner;
- reduce production and service costs;
- provide required functionality such as security, reliability, and scalability;
- ensure investment protection through interoperability and backwards- and forwards-compatibility with other UC&C systems and solutions;
- continue differentiation through open standards and broad interoperability of our infrastructure in complex environments where integration with other third-party technologies, such as Microsoft Lync, is critical;
- successfully integrate our products with, and operate our products on, existing customer platforms and consumer devices;
- gain market presence and brand recognition;

- extend credit to our partners;
- conform to open standards;
- successfully address disruptive technology shifts and new business models, such as cloud-based and software-based UC&C solutions and mobility and consumer solutions; and
- successfully address the transition in the market from principally hardware based point products to solutions including hardware, software and services.

Our competitive environment also differs by geography. Cisco Systems is our primary global competitor in all theaters and categories in which we compete. In the Asia Pacific region, we additionally compete with China-based competitors such as Huawei and ZTE Corporation, as well as Sony Corporation, Zylotech Ltd., ClearOne Communications, Inc., Grandstream Communications, Inc., and other smaller competitors.

We may not be able to compete successfully against our current or future competitors. We expect our competitors to continue to improve the performance of their current products and to introduce new products or new technologies that provide improved performance. New product i ntroductions by our current or future competitors, or our delay in bringing new products to market, could cause a significant decline in sales or loss of market acceptance of our products. We believe that ongoing competitive pressure may result in a reduction in the prices of our products and our competitors' products. In addition, the introduction of additional lower priced competitive products or of new products or product platforms could render our existing products or technologies obsolete. We also believe we will face increasing competition from alternative UC&C solutions that employ new technologies or new combinations of technologies. Further, the commoditization of certain video conferencing products is leading to the availability of alternative, lower-cost UC&C products than ours, such as those offered by Apple, Google, Logitech, Skype and others, which could drive down our sales prices and negatively impact our revenues.

Increased consolidation and the formation of strategic partnerships in our industry may lead to increased competition which could adversely affect our business and future results of operations.

Strategic partnerships and acquisitions are being formed and announced by our competitors on a regular basis, which increases competition and often results in increased downward pressure on our product prices. For instance, when Cisco Systems acquired Tandberg ASA, previously our largest independent competitor, we had to compete with a larger combined company with significantly greater financial and sales and marketing resources, an extensive channel network and an expanded video communications solutions pr oduct line. This product line is often sold in conjunction with Cisco Systems' proprietary network equipment and technology as a complete solution, making it more difficult for us to compete against them or to ascertain pricing on competitive products. In addition, Cisco Systems may use its dominance in network equipment to foreclose competition in the UC&C solutions market. Cisco Systems may also preclude our competitive products from being fully interoperable with Cisco Systems endpoints, video infrastructure and/or network products. Similarly, Avaya acquired Konftel and RADVISION, and Logitech acquired LifeSize. These consolidations and partnerships have resulted in increased competition and pricing pressure, as the newly-combined entities have greater financial resources, deeper mass market sales channels and greater pricing flexibility than we do. Acquisitions or partnerships made by one of our strategic partners could also limit the potential contribution of our strategic relationships to our business and restrict our ability to form strategic relationships with these companies in the future and, as a result, harm our business. Rumored or actual consolidation of our partners and competitors will likely cause uncertainty and disruption to our business and can cause our stock price to fluctuate.

Global economic conditions have adversely affected our business in the past and could adversely affect our revenues and harm our business in the future.

Adverse economic conditions worldwide have contributed to slowdowns in the communications and networking industries and have caused a negative impact on the specific segments and markets in which we operate. As our business has grown, we have become increasingly exposed to adverse changes in general global economic conditions, which can result in reductions in capital expenditures by end-user customers for our products, longer sales cycles, the deferral or delay of purchase commitments for our products and increased competition. These factors have adversely impacted our operating results in prior periods and could also impact us again in the future. Global economic concerns, such as the varying pace of global economic recovery and European and domestic debt and budget issues, continue to create uncertainty and unpredictability that have contributed to longer selling cycles and cause us to continue to be cautious about our future outlook, including our near-term revenue and profitability outlook. For example, we have recently seen weakening demand and longer sales cycles in the public sector, which includes federal, state and local governments, as well as healthcare and education, which we believe were due in large part to budget constraints, as well as political issues. A global economic downturn would negatively impact technology spending for our products and services and would materially adversely affect our business, operating results and financial condition. Further, we have recently seen slower growth than we anticipated in China, India, and other growth markets, which we believe is due in part to macro-economic factors. Further, global economic conditions have resulted in a tightening in the credit markets, low liquidity levels in many financial markets, decrease in customer demand and ability to pay obligations, and extreme volatility in credit, equity, foreign currency and fixed income markets.

These adverse economic conditions could negatively impact our business, particularly our revenue potential, losses on investments and the collectability of our accounts receivable, due to the inability of our customers to obtain credit to finance purchases of our products and services, customer or partner insolvencies or bankruptcies, decreased customer confidence to make purchasing decisions resulting in delays in their purchasing decisions, and decreased customer demand or demand for lower-end products.

Our quarterly operating results may fluctuate significantly and are not necessarily a good indicator of future performance.

Our quarterly operating results have fluctuated in the past and may vary significantly in the future as a result of a number of factors, many of which are out of our control or can be difficult to predict. These factors include, but are not limited to:

- fluctuations in demand for our products and services, in part due to uncertain global economic conditions and increased competition, as well as transitions in the markets in which we sell products and services;
- our ability to execute on our strategic and operating plans;
- changes to our global organization and retention of key personnel;
- slowing sales or variations in sales rates by our channel partners to their customers;
- changes to our channel partner programs, contracts and strategy that could result in a reduction in the number of channel partners, could adversely impact our revenues and gross margins as we realign our discount and rebate programs for our channels, or could cause more of our channel partners to add our competitors’ products to their portfolio;
- the prices and performance of our products and those of our existing or potential new competitors;
- the timing, size and mix of the orders for our products;
- the level and mix of inventory that we hold to meet future demand;
- changes in effective tax rates which are difficult to predict due to, among other things, the timing and geographical mix of our earnings, the outcome of current or future tax audits and potential new rules and regulations;
- changes in the underlying factors and assumptions used in determining stock-based compensation;
- fluctuations in the level of international sales and our exposure to foreign currency fluctuations on both revenues and expenses;
- dependence on component suppliers and third party manufacturers, which includes outside development manufacturers, and the associated manufacturing costs;
- the impact of increasing costs of freight and components used in the manufacturing of our products and the potential negative impact on our gross margins;
- the magnitude of any costs that we must incur in the event of a product recall or of costs associated with product warranty claims;

- the impact of seasonality on our various product lines and geographic regions; and
- adverse outcomes in intellectual property litigation and other matters and the costs associated with asserting and enforcing our intellectual property portfolio.

As a result of these and potentially other factors, we believe that period-to-period comparisons of our historical results of operations are not necessarily a good predictor of our future performance. If our future operating results are below the expectations of stock market securities analysts or investors, or below any financial guidance we may provide to the market, our stock price will likely decline. Financial guidance beyond the current quarter is inherently subject to greater risk and uncertainty, and if the transitions in our markets accelerate, our ability to forecast becomes more difficult.

We face risks associated with developing and marketing our products, including new product development and new product lines.

Our success depends on our ability to assimilate new technologies in our products and to properly train our channel partners, sales force and end-user customers in the use of those products.

The markets for our products are characterized by rapidly changing technology, such as the demand for HD video technology and lower cost video infrastructure products, the shift from on premise-based equipment to a mix of solutions that includes hardware and software and the option for customers to have video delivered as a service from the cloud or through a browser, evolving industry standards and frequent new product introductions, including an increased emphasis on software products and new, lower cost hardware products. Historically, our focus has been on premise-based solutions for the enterprise and public sector, targeted at vertical markets, including finance, manufacturing, government, education and healthcare. In addition, in response to emerging market trends, and the network effect driven by business-to-business and business-to-consumer adoption of UC&C, we are expanding our focus to capture opportunities within emerging markets including mobile, small and medium businesses (“SMBs”), and cloud-based delivery. If we are unable to successfully capture these markets to the extent anticipated, or to develop the new technologies and partnerships required to successfully compete in these markets, then our revenues may not grow as anticipated and our business may ultimately be harmed. Given the competitive nature of the mobile industry, changing end user behaviors and other industry dynamics, these relationships may not evolve into fully-developed product offerings or translate into any future revenues.

The success of our new products depends on several factors, including proper new product definition, product cost, infrastructure for services and cloud delivery, timely completion and introduction of new products, proper positioning and pricing of new products in relation to our total product portfolio and their relat ive pricing, differentiation of new products from those of our competitors and other products in our own portfolio, market acceptance of these products and the ability to sell our products to customers as comprehensive UC&C solutions. Other factors that may affect our success include properly addressing the complexities associated with compatibility issues, channel partner and sales force training, technical and sales support, and field support.

In addition, we are making additional investments to deliver cloud-based and mobile UC&C solutions, and we continue to invest in immersive telepresence solutions. Ultimately, it is possible that our increased investments in these areas may not yield the planned financial results. In addition, in our high-end UC&C so lutions, such as immersive telepresence, that typically require direct high touch sales involvement with potential customers, we compete directly with large, multi-national corporations, such as Cisco Systems, who have substantially greater financial, technical, marketing, and executive resources than we do, as well as greater name recognition and market presence with many potential customers.

We also need to continually educate and train our channel partners to avoid any confusion as to the desirability of new product offerings and solutions compared to our existing product offerings and to be able to articulate and differentiate the value of new offerings over those of our competitors. As the market evolves, our distribution model and channel partners may change as well. During the last few years, we launched several new product offerings, including new software, hardware and cloud-based solutions, and these new products could cause confusion among our channel partners and end-users, thereby causing them to delay purchases of our new products until they determine their market acceptance, or as they consider a more comprehensive UC&C strategy versus point product or endpoint only deployments. Any delays in future purchases could adversely affect our revenues, gross margins and operating results in the period of the delay.

The shift in communications from circuit-switched to IP-based and other new technologies over time may require us to add new channel partners, enter new markets and gain new core technological competencies. We are attempting to address these needs and the need to develop new products through our internal development efforts, through joint developments with other companies and through acquisitions. However, we may not identify successful new product opportunities and develop and bring products to market in a timely manner. Further, as we introduce new products, these product transition cycles may not go smoothly, causing an increased risk of inventory obsolescence and relationship issues with our end-user customers and channel partners. The failure of our new product development efforts, any inability to service or maintain the necessary third-party interoperability licenses, our inability to properly manage product transitions or to anticipate new product demand, or our inability to enter new markets would harm our business and results of operations.

We may experience delays in product introductions and availability, and our products may contain defects which could seriously harm our results of operations.

We have experienced delays in the introduction of certain new products and enhancements in the past. The delays in product release dates that we experienced in the past have been due to factors such as unforeseen technology issues, manufacturing ramping issues and other factors, which we believe negatively impacted our sales revenue in the relevant periods. Any of these or other factors may occur again and delay our future product releases. Our product development groups are dispersed through out the United States and other international locations such as China, India and Israel. As such, disruption due to geopolitical conflicts could create an increased risk of delays in new product introductions.

We produce highly complex communications equipment, which includes both hardware and software and incorporates new technologies and component parts from different suppliers. Resolving product defect and technology and quality issues could cause delays in new product introduction. Component part short ages could also cause delays in product delivery and lead to increased costs. Further, some defects may not be detected or cured prior to a new product launch, or may be detected after a product has already been launched and may be incurable or result in a product recall. The occurrence of any of these events could result in the failure of a partial or entire product line or a withdrawal of a product from the market. We may also have to invest significant capital and other resources to correct these problems, including product reengineering expenses and inventory, warranty and replacement costs. These problems might also result in claims against us by our customers or others and could harm our reputation and adversely affect future sales of our products.

Any delays for new product offerings currently under development, including product offerings for mobile, cloud-based delivery, software delivery or any product quality issues, product defect issues or product recalls could adversely affect the market accept ance of these products, our ability to compete effectively in the market, and our reputation with our customers, and therefore could lead to decreased product sales and could harm our business. We may also experience cancellation of orders, difficulty in collecting accounts receivable, increased service and warranty costs in excess of our estimates, diversion of resources and increased insurance costs and other losses to our business or to end-user customers.

Product obsolescence or discontinuance and excess inventory can negatively affect our results of operations.

The pace of change in technology development and in the release of new products has increased and is expected to continue to increase, which can often render existing or developing technologies obsolete. In addition, the introduction of new products and any related actions to discontinue existing products can cause existing inventory to become obsolete. These obsolescence issues, or any failure by us to properly anticipate product life cycles, c an require write-downs in inventory value. For each of our products, the potential exists for new products to render existing products obsolete, cause inventories of existing products to increase, cause us to discontinue a product or reduce the demand for existing products.

Further, we continually evaluate our product lines both strategically and in terms of potential growth rates and margins. Such evaluations could result in the discontinuance or divestiture of those products in the future, which could be disruptive and costly and may not yield the intended benefits. For example, we divested our enterprise wireless solutions business in December 2012.

We face risks related to the adoption rate of new technologies.

We have invested significant resources developing products that are dependent on the adoption rate of new technologies. For example, our Polycom ® RealPresence ® One and Polycom ® RealPresence ® Virtual Edition platform software solutions are dependent on enterprise adoption of software based video bridging applications. If the software related video bridging market does not grow as we anticipate, or if our strategy for addressing the market, or execution of such strategy, is not successful, our business and results of operations could be harmed. In addition, we develop new products or make product enhancements based upon anticipated demand for new features and functionality. Our business and revenues may be harmed if the use of new technologies that our future products are based on does not occur; if we do not anticipate shifts in technology appropriately or rapidly enough; if the development of suitable sales channels does not occur, or occurs more slowly than expected; if our products are not priced competitively or are not readily adopted; or if the adoption rates of such new technologies do not drive demand for our other products as we anticipate. For example, although we believe increased sales of UC&C solutions will drive increased demand for our UC hardware and software platform products, such increased demand may not occur or we may not benefit to the same extent as our competitors. We also may not be successful in creating demand in our installed customer base for products that we develop that incorporate new technologies or features. Conversely, as we see the adoption rate of new technologies increase, product sales of our legacy products may be negatively impacted, which could materially impact our revenues and results of operations.

Lower than expected market acceptance of our products, price competition and other price changes would negatively impact our business.

If the market does not accept our products, particularly our new product offerings on which we are relying on for future revenues, such as product offerings for platform software, new hardware products and cloud-based delivery, our business and operating results would be harmed. Further, revenues relating to new product offerin gs are unpredictable, and new products typically have lower gross margins for a period of time after their introduction and higher marketing and sales costs. As we introduce new products, they could increasingly become a higher percentage of our revenues. Our profitability could also be negatively affected in the future as a result of continuing competitive price pressures in the sale of UC&C solutions equipment and UC platform products. Further, in the past we have reduced prices in order to expand the market for our products, and in the future, we may further reduce prices, introduce new products that carry lower margins in order to expand the market or stimulate demand for our products, or discontinue existing products as a means of stimulating growth in a new product.

Finally, if we do not fully anticipate, understand and fulfill the needs of end-user customers in the vertical markets that we serve, we may not be able to fully capitalize on product sales into those vertical markets and our revenues may, accordingly, fail to grow as anticipated or may be adversely impacted. We face similar risks as we expand and focus our business on the SMB and service provider markets.

Failure to adequately service and support our product offerings could harm our results of operations.

The increasing complexity of our products and associated technologies has increased the need for enhanced product warranty and service capabilities, including integration services, which may require us to develop or acquire additional advanced service capabilities and make additional investments. If we cannot adequately develop and train our internal support organization or maintain our relationships with our outside technical support providers, it could adversely affect our business.

In addition, sales of our immersive telepresence solutions are complex sales transactions, and the end-user customer typically purchases an enhanced level of support service from us so as to ensure that its significant investment can be fully operational and realized. This r equires us to provide advanced services and project management in terms of resources and technical knowledge of the customer’s telecommunication network. If we are unable to provide the proper level of support on a cost efficient basis, it may cause damage to our reputation in this market and may harm our business and results of operations.

If we fail to successfully attract and retain highly qualified management personnel and key employees, our business may be harmed.

Our future success will depend in part on our continued ability to hire, assimilate and retain highly qualified senior executives and other key management personnel. As new hires assess their areas of responsibilities and define their organizations, disruption to the business and additional organizational changes or restructuring actions and charges could occur. We have had turnover in a number of senior executive positions, including our chief executive officer, our chief financial officer, our head of worldwide sales, our chief marketing officer and head of worldwide engineering. In December 2013, we appointed a new CEO and in March 2014, we appointed an interim chief financial officer. This transition, along with the hiring of other new senior managers, may be disruptive to our business, and if we are unable to execute an orderly transition, our revenue, operating results and financial condition may be adversely impacted. Future changes to our executive and senior management teams, including new executive hires or departures, could cause further disruption to the business and have a negative impact on our operating performance, while these operational areas are in transition. Competition for qualified executive and other management personnel is intense, and we may not be successful in attracting or retaining such personnel.

Impairment of our goodwill or other assets would negatively affect our results of operations.

As of March 31, 2014, our goodwill was approximately $559. 2 million and other purchased intangible assets were approximately $34.1 million, which together represent a significant portion of the assets recorded on our consolidated balance sheet. Goodwill and indefinite lived intangible assets are reviewed for impairment at least annually or sooner under certain circumstances. Other intangible assets that are deemed to have finite useful lives will continue to be amortized over their useful lives but must be reviewed for impairment when events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Screening for and assessing whether impairment indicators exist, or if events or changes in circumstances have occurred requires significant judgment. Therefore, we may be required to take a charge to operations as a result of future goodwill and intangible asset impairment tests. The decreases in revenue and stock price that have occurred as a result of global economic factors make such impairment more likely to result. If impairment is deemed to exist, we would write-down the recorded value of these intangible assets to their fair values and these write-downs could harm our business and results of operations. Further, we cannot assure you that future inventory, investment, license, fixed asset or other asset write-downs will not happen. If future write-downs do occur, they could harm our business and results of operations.

Difficulties in identifying and integrating acquisitions could adversely affect our business.

We have spent and may continue to spend significant resources identifying and acquiring businesses. The process of identifying suitable candidates and integrating acquired companies into our operations requires significant resources and is time-consuming, expensive and disruptive to our business. Failure to achieve the anticipated ben efits of any acquisitions could harm our business, results of operations and cash flows. Additionally, we may incur material charges in future quarters to reflect additional costs associated with any future acquisition we may make. We may not realize the benefits we anticipate from our acquisitions because of the following significant challenges:

- incorporating the acquired company’s technology and products and services into our current and future product lines, including providing services that are new for us;
- potential deterioration of the acquired company’s product sales and revenues due to integration activities and management distraction;
- managing integration issues;
- potentially creating confusion in the marketplace by ineffectively distinguishing or marketing the product and services offerings of the newly acquired company with our existing product and services lines;
- entering new businesses or product lines;
- potentially incompatible cultural differences between the two companies;
- geographic dispersion of operations;
- interruption of manufacturing operations as we transition an acquired company’s manufacturing to our outsourced manufacturing model;
- generating marketing demand for an expanded product line;
- distraction of the existing and acquired sales force during the integration of the companies;
- distraction of and potential conflict with the acquired company’s products and services in regards to our existing channel partners;

- the difficulty in leveraging the combined technologies and capabilities across all product lines and customer bases; and
- our inability to retain the customers or employees of an acquired company.

Our failure to successfully implement restructuring plans related to vacant and redundant facilities could adversely impact our business.

We have in the past, and may in the future, as part of acquiring a company or as part of restructuring actions taken to streamline the business, identify redundant facilities. If we identify redundant facilities, we would develop a plan to exit as part of the integration of the acquired business or as part of the implementation of the restructuring plan. Any reserve would be net of estimated sublease income we expect to generate. Our estimate of sublease income is based on current comparable rates for lease s in the respective markets. If actual sublease income is lower than our estimates for any reason, if it takes us longer than we estimated to sublease these facilities, or if the associated cost of, or our recorded liability related to, subleasing or terminating our lease obligations for these facilities is greater than we estimated, we would incur additional charges to operations which would harm our business, results of operations and cash flows.

We experience seasonal demand for our products and services, which may adversely impact our results of operations during certain periods.

Sales of some of our products have experienced seasonal fluctuations which have affected sequential growth rates for these products, particularly in our first and third quarters. For example, the first quarter of the year is typically the least predictable quarter of the year for us and there is generally a slowdown for sales of our products in the European region in the third quarter of each year. Further, the timing of fiscal year ends for our government and enterprise customers may result in significant fluctuations from quarter to quarter. Seasonal fluctuations could negatively affect our business, which could cause our operating results to fall short of anticipated results for such quarters.

Our operating results are hard to predict as a significant amount of our sales may occur at the end of a quarter and certain of our service provider contracts include contractual acceptance provisions.

The timing of our channel partner orders and product shipments and our inability to reduce expenses quickly may adversely impact our operating results.

Our quarterly revenues and operating results depend in large part upon the volume and timing of channel partner orders received during a given quarter and the percentage of each order that we are able to ship and recognize as revenue during each quarter, each of which is extremely difficult to forecast. We have experienced longer sales cycles in connection with our high-end UC&C solutions, which could also increase the level of unpredictability and fluctuation in the timing of orders. Further, depending upon the complexity of these solutions, such as immersive telepresence and some UC platform products, and the underlying contractual terms, revenue may not be recognized until the product has been accepted by the end-user, resulting in further revenue unpredictability.

Our expectations for both short and long-term future revenues are based almost exclusively on our own estimate of future demand and not on firm channel partner orders. Our expense levels are based largely on these estimates. In addition, a significant portion of our product orders are received in the last month of a quarter, typically the last few weeks of that quarter; thus, t he unpredictability of the receipt of these orders could negatively impact our future results. For instance, we have experienced a high percentage of our bookings and resulting revenues in the third month of the quarter. For example, in the first quarter of 2014, approximately 54% of our quarterly revenues were recognized in the third month of the quarter. Accordingly, if for any reason orders and revenues do not meet our expectations in a particular period, we will be limited in our ability to reduce expenses quickly, and any significant shortfall in demand for our products in relation to our expectations would have an adverse impact on our operating results.

Delays in receiving contractual acceptance will cause delays in our ability to recognize revenue and may impact our quarterly revenues, depending upon the timing and shipment of orders under such contracts.

Certain of our sales contracts include product acceptance provisions which vary depending upon the type of product and individual terms of the contract. In addition, acceptance criteria may be required in other contracts in the future, depending upon the size and complexity of the sale and the type of products ordered. As we increase our focus on growing our service provider business and cloud and m anaged services, it is likely that an increased amount of our revenue will be subject to such contractual acceptance terms and milestones, and we may introduce new revenue models that could result in less revenue being recognized upfront. Accordingly, we defer revenue until the underlying acceptance criteria in any given contract have been met. Depending upon the acceptance terms, the timing of the receipt and subsequent shipment of an order may result in acceptance delays, may reduce the predictability of our revenues, and, consequently, may adversely impact our revenues and results of operations in any particular quarter.

We face risks related to our dependence on channel partners to sell our products.

Conflicts and competition with our channel partners and strategic partners could hurt sales of our products.

We have OEM agreements with major telecommunications equipment manufacturers, such as Avaya and Cisco Systems, whereby we manufacture our products to work with the equipment of the OEM. These relationships can create conflicts with our other channel partners who directly compete with our OEM partners, or could create conflicts among our OEM partners who compete with each other, which could adversely affect revenues from these other channel partners o r our OEM partners. Conflicts among our OEM partners could also make continued partnering with these OEM partners increasingly difficult. Our OEM partners may decide to enter into a new OEM partnership with a company other than us, or develop products of their own, or acquire such products through acquisition, that compete with ours in the future, which could adversely affect our revenues and results of operations. For example, Cisco Systems has informed us that it will end of life, and will therefore no longer resell, the IP conference phones they purchase from us, which is expected to reduce our 2014 revenue by approximately $40.0 million compared to 2013. Because many of our channel partners also sell equipment that competes with our products, these channel partners could devote more attention to these other products which could harm our business. Further, as a result of our more direct-touch sales model, we may alienate some of our channel partners or cause a shift in product sales from our traditional channel model. Due to these and other factors, channel conflicts could arise which cause channel partners to devote resources to non-Polycom communications equipment, or to offer new products from our competitors, which would negatively affect our business and results of operations.

In addition, we are focusing on our strategic partnerships and alliances with Microsoft, AT&T, BroadSoft and IBM. Defining, managing and developing these partnerships is expensive and time-consuming and may not come to fruition or yield the desired results, impacting our ability to effectively compete in the market and to take advantage of anticipated future market growth. For example, our key strategic relationship with Microsoft in which we are jointly developing and marketing a UC&C solution that leverages the demand for Microsoft’s next generation UC server could negatively impact our ability to compete effectively in the UC&C marketplace if we are unsuccessful. Our mobile solutions are also dependent on our ability to successfully partner with mobile device manufacturers.

In addition, as we enter into agreements with these strategic partners to enable us to continue to expand our relationships with these partners, we may undertake additional obligations, such as development efforts, which could trigger unintended penalty or other provisions in the event that we fail to fully perform our contractual commitments or could result in additional costs beyond those that are planned in order to meet these contractual obligations.

As we continue to build strategic partnerships with companies, conflicts between our strategic partners could arise which could harm our business.

Some of our current and future products are directly competitive with the products sold by both our channel and strategic partners. As a result of these conflicts, there is the potential for our channel and strategic partners to compete head-to-head with us or to significantly reduce or eliminate their orders of our products or design our technology out of their products. Further, some of our products are reliant on strategic partnerships with call manager providers and wireless UC&C platform providers. These partnerships result in interoperable features between products to deliver a total solution to our mutual end-user customers. Competition with our partners in all of the markets in which we operate is likely to increase, which would adversely affect our revenues and could potentially strain our existing relationships with these companies.

We are subject to risks associated with our channel partners' sales reporting, product inventories and product sell-through.

We sell a significant amount of our products to channel partners who maintain their own inventory of our products for sale to dealers and end-users. Our revenue estimates associated with products stocked by some of our channel partners are based largely on end-user sales reports that our channel partners provide to us on a monthly basis. To date, we believe this data has been generally accurate. To the extent that this sales-out and channel inventory dat a is inaccurate or not received timely, our revenue estimates for future periods may be less reliable. Further, if these channel partners are unable to sell an adequate amount of their inventory of our products in a given quarter or if channel partners decide to decrease their inventories for any reason, such as a recurrence of global economic uncertainty and downturn in technology spending, the volume of our sales to these channel partners and our revenues would be negatively affected. In addition, we also face the risk that some of our channel partners have inventory levels in excess of future anticipated sales. If such sales do not occur in the time frame anticipated by these channel partners for any reason, these channel partners may substantially decrease the amount of product they order from us in subsequent periods, or product returns may exceed historical or predicted levels, which would harm our business and create unexpected variations in our financial results.

Potential changes to our channel partner programs or channel partner contracts may not be favorably received and as a result our channel partner relationships and results of operations may be adversely impacted.

Our channel partners are eligible to participate in various incentive programs, depending upon their contractual arrangements with us. As part of these arrangements, we have the right to make changes in our programs and launch new programs as business conditions warrant. Further, from time to time, we may make changes to our channel p artner contracts. These changes could upset our channel partners with the effect that they could add competitive products to their portfolios, delay advertising or sales of our products, or shift more emphasis to selling our competitors' products. Our channel partners may not be receptive to future changes and we may not receive the positive benefits that we anticipate in making any program and contractual changes.

Consolidation of our channel partners and strategic partners may result in changes to our overall business relationships, less favorable contractual terms and disruption to our business.

We have seen consolidation among certain of our existing channel partners and strategic partners. In such instances, we may experience changes to our overall business and operational relationships due to dealing with a larger combined entity, and our ability to maintain such relationships on favorable contractual terms may be limited. Depending on the extent of these changes and other disruptions caused to the co mbined businesses during the integration period, the timing and extent of revenue from these channel partners may be adversely affected.

We are subject to risks associated with the success of the businesses of our channel partners.

Many of our channel partners that carry multiple Polycom products, and from whom we derive significant revenues, are thinly capitalized. Although we perform ongoing evaluations of the creditworthiness of our channel partners, the failure of these businesses to establish and sus tain profitability, obtain financing or adequately fund capital expenditures could have a significant negative effect on our future revenue levels and profitability and our ability to collect our receivables. As we grow our revenues and our customer base, our exposure to credit risk increases. In addition, global economic uncertainty, reductions in technology spending in the United States and other countries, and the ongoing challenges in the financial services industry have restricted the availability of capital, which may delay collections from our channel partners beyond our historical experience or may cause companies to file for bankruptcy, jeopardizing the collectability of our receivables from such channel partners and negatively impacting our future results.

Our channel partner contracts are typically short-term and early termination of these contracts may harm our results of operations.

We do not typically enter into long-term contracts with our channel partners, and we cannot be certain as to future order levels from our channel partners. In the event of a termination by one of our major channel partners, we believe that the end-user customer would likely purchase from another one of our channel partners, but if this did not occur and we were unabl e to rapidly replace that revenue source, its loss would harm our results of operations.

If our channel partners fail to comply with laws or standards, our business could be harmed.

We expect our channel partners to meet certain standards of conduct and to comply with applicable laws, such as global anticorruption laws. Noncompliance with such standards or laws could harm our reputation and could result in harm to our business and results of operations in the event we were to become involved in an investi gation due to such noncompliance by a channel partner.

International sales and expenses represent a significant portion of our revenues and operating expenses and risks inherent in international operations could harm our business.

International sales and expenses represent a significant portion of our revenues and operating expenses, and we anticipate that international sales and operating expenses will continue to increase. In each of the three months ended March 31, 2014 and 2013, international revenues represented 59% of our total revenues. International sales and expenses are subject to certain inherent risks, which would be amplified if our international business grows as anticipated, including the following:

- adverse economic conditions in international markets, such as the restricted credit environment and sovereign credit concerns in EMEA and the recent reduced government spending and elongated sales cycles we have seen in China;
- information security, environmental and trade protection measures or sanctions and other legal and regulatory requirements, some of which may affect our ability to import our products, to export our products from, or sell our products in various countries, such as the recent trade sanctions imposed by the U.S. Department of the Treasury on certain individuals and entities in Russia;
- foreign currency exchange rate fluctuations, including the recent volatility of the U.S. dollar, and the impact of our underlying hedging programs;
- unexpected changes in regulatory requirements and tariffs;
- longer payment cycles;
- cash repatriation restrictions;
- potentially adverse tax consequences; and
- the impact of instability in the Middle East or military action or other hostilities on foreign markets.

International revenues may fluctuate as a percentage of total revenues in the future as we introduce new products. These fluctuations are primarily the result of our practice of introducing new products in North America first and the additional time and costs required for product homologation and regulatory approvals of new products in international markets. To the extent we are unable to expand international sales in a timely and cost-effective manner, our business could be harmed. We may not b e able to maintain or increase international market demand for our products.

Although to date, a substantial majority of our international sales have been denominated in U.S. currency, we expect that a growing number of sales will be denominated in non-U.S. currencies as more international customers request billing in their currency. We maintain local currency pricing in the European Union and the United Kingdom whereby we price and invoice our products and services in Euros and British Pounds. In addition , some of our competitors currently invoice in foreign currency, which could be a disadvantage to us in those markets where we do not. Our international operating expenses are primarily denominated in foreign currency with no offsetting revenues in those currencies except for the Euro and British Pound. As a result of these factors, we expect our business will be vulnerable to currency fluctuations, which could adversely impact our revenues and margins. We will continue to evaluate whether it is necessary to denominate sales in local currencies other than the Euro and the British Pound, depending on customer requirements.

We do not hedge for speculative purposes. As a result of our increased exposure to currency fluctuations, we typically engage in currency hedging activities to mitigate currency fluctuation exposure. Our hedging costs can vary depending upon the size of our hedge program, whether we are purchasing or selling foreign currency relative to the U.S. dollar and interest rates spreads between the U.S. and other foreign markets. As a result, interest and other income (expense), net has become less predictable and more difficult to forecast. The impact in any given quarter of our hedging programs is dependent upon a number of factors, including the actual level of foreign currency denominated revenues, the exchange rate in our underlying hedge contracts and the actual exchange rate during the quarter. As a result of our program, we increased operating income by $3.7 million and $2.3 million in fiscal year 2012 and 2013, respectively, and reduced operating income by $0.7 million in the first quarter of 2014. For further information on our hedging program, see the section entitled “Quantitative and Qualitative Disclosures About Market Risk.”

We continue to look for ways to improve and streamline our infrastructure, including implementing a new integrated financial information system and other information technology and processes, and if we do not appropriately manage these implementations, our operating results may be negatively affected.

To manage our business effectively, we must continue to improve and streamline our infrastructure, including information technology and processes, financial operating and administrative systems and controls in an efficient manner. We plan to continue to improve our information technology systems and underlying business processes, which will require significant management time, support and cost. Moreover, there are inherent risks associated with implementing new systems that may affect our ability to manage our data. If we do not successfully implement, improve or maintain these systems, our operations may be disrupted and our operating results could be harmed. In addition, these systems or their functionality may not operate as we expect them to, and we may be required to expend significant resources to correct problems or find alternative sources for performing these functions, which makes our ability to forecast and effectively control our operating expenses more challenging. For example, as part of our effort to improve efficiencies throughout our worldwide organization, we have begun the implementation of a new integrated financial information system. This implementation is expected to be completed in two phases with the financial accounting processes being implemented in the third quarter of 2014 and the operations components in early 2015. The successful conversion from our legacy financial systems to a new integrated financial information system entails a number of risks due to the complexity of the conversion and implementation process. There can be no assurance that the conversion to, and the implementation of, the new financial information system will not impede our ability to receive and process orders and accurately and timely prepare, analyze and report the financial data we use in making operating decisions and which form the basis of the financial information we include in the periodic reports we file with the SEC.

We also have a Shared Services Center (“SSC”) in Beijing, China, where we perform certain accounting, order entry and other functions previously performed in regional headquarter locations, and we may expand our SSC operations in the future. If the controls we put in place with respect to the SSC fail to operate effectively, our business and results of operations could be harmed.

We have limited supply sources for some key components of our products and services and for the outside development and manufacture of certain of our products, and our operations could be harmed by supply or service interruptions, component defects or unavailability of these components or products.

Some key components used in our products are currently available from only one source and others are available from only a limited number of sources, including some key integrated circuits and optical elements. Because of such limited sources for component parts, we may have little or no ability to procure these parts on favorable pricing terms. We also obtain certain components fr om suppliers in China, Japan, and certain Southeast Asia countries, and any political or economic instability in these regions in the future, natural disasters, disruptions associated with infectious diseases, or future import restrictions, may cause delays or an inability to obtain these supplies. Further, we have suppliers in Israel and any military action or war with other Middle Eastern countries perceived as a threat by the United States government may cause delays or an inability to obtain supplies for our UC platform products.

We have no raw material supply commitments from our suppliers and generally purchase components on a purchase order basis either directly or through our contract manufacturers. Some of the components included in our products, such as microprocessors and other integrated circuits, have been subject to limited allocations by suppliers. Component manufacturers may also announce the end of production of certain components that we require for our products necessitating the redesign a nd end of life purchases on our part. In addition, companies with limited or uncertain financial resources manufacture some of these components. Further, we do not always have direct control over the supply chain, as many of our component parts are procured for us by our contract manufacturers. In the event that we, or our contract manufacturers, are unable to obtain sufficient supplies of components, develop alternative sources as needed, or companies with limited financial resources go out of business, our operating results could be seriously harmed. In addition, we may incur additional costs to resolve these supply shortages, which would negatively impact our gross margins.

We have strategic relationships with third parties to develop and manufacture certain products for us. The loss of any such strategic relationship due to competitive reasons, contractual disputes, the financial instability of a strategic partner or their inability to obtain any financing necessary to adequately fund their operations, c ould have a negative impact on our ability to produce and sell certain products and product lines and, consequently, would adversely affect our revenues and results of operations. We are also dependent upon third parties to provide our managed services for our immersive telepresence products. Any disruption in our managed services for our customers may materially adversely affect our ability to sell our immersive telepresence products and impact our relationship with the end users.

Additionally, our HDX solutions and network system products are designed based on digital signal processors and integrated circuits produced by Texas Instruments and cameras produced by JVC. If we could no longer obtain integrated circuits or cameras from these suppliers, we woul d incur substantial expense and take substantial time in redesigning our products to be compatible with components from other manufacturers, and we might not be successful in obtaining these components from alternative sources in a timely or cost-effective manner. The failure to obtain adequate supplies of vital components could prevent or delay product shipments, which would harm our business. We also rely on the introduction schedules of some key components in the development or launch of new products. Any delays in the availability of these key components could harm our business.

Our operating results would be seriously harmed by receipt of a significant number of defective components or components that fail to fully comply with environmental or other regulatory requirements, an increase in component prices, or our inability to obtain lower component prices in response to competitive price reductions.

If we experience manufacturing disruptions or capacity constraints or our manufacturers fail to comply with laws or standards, our business would be harmed.

We subcontract the manufacture of most of our products to Celestica, Askey, Foxconn and VTech, which are all third-party contract manufacturers. We use Celestica's facilities in Thailand and China and Askey's, Foxconn's, and VTech's facilities in China. Should there be any disruption in the ability of these third party manufacturers to conduct business for any reason, our business and results of operations would be harmed. While we have begun to develop secondary manufacturing sources for certain products, Celestica's facilities are currently the manufacturer for substantially all of these products, and if Celestica experiences an interruption in operations, suffers from capacity constraints, or is otherwise unable to meet our current or future production requirements we would experience a delay or inability to ship our products, which would have an immediate negative impact on our revenues. Moreover, any incapacitation of any of our or our subcontractors' manufacturing sites due to destruction, natural disaster or similar events could result in a loss of product inventory. As a result of any of the foregoing, we may not be able to meet demand for our products, which could negatively affect revenues in the quarter of the disruption or longer depending upon the magnitude of the event, and could harm our reputation. In addition, operating in the international environment exposes us to certain inherent risks, including unexpected changes in regulatory requirements and tariffs, difficulties in staffing and managing foreign operations and potentially adverse tax consequences, all of which could harm our business and results of operations.

In addition, we expect our contractors to meet certain standards of conduct, including standards related to the environment, health and safety, general working conditions, and compliance with laws. Significant or continuing noncompliance of such standards or applicable laws could harm our reputation or cause us to experience disruptions that could harm our business and results of operations. For example, the SEC has adopted rules imposing diligence and disclosure requirements around the use of "conflict min erals" in the products we have manufactured. These rules will result in additional time and cost to diligence our contractors and comply with the disclosure requirements and they may also affect the sourcing and availability of minerals we use in our products. Although we do not anticipate any material adverse effects based on these rules, we will need to ensure that our contractors comply with them.

We have outstanding borrowings under our credit facility, and may incur additional debt in the future, which may adversely affect our financial condition and future financial results.

As of March 31, 2014, we had $246.9 million in term loans outstanding under our credit agreement (the "Credit Agreement"). Our indebtedness could have important consequences to our business; for example, it could:

- require us to dedicate a significant portion of our cash flow to payments on our indebtedness, thereby reducing the availability of cash flow to fund working capital, capital expenditures, acquisitions and investments and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the markets in which we operate;
- limit, along with the restrictive covenants contained in the credit agreement, our ability to borrow additional funds or to borrow funds at rates or on other terms we find acceptable;
- place us at a competitive disadvantage to our competitors that have less debt; and
- increase our vulnerability to adverse economic, financial, industry or competitive conditions, including increases in interest rates.

In addition, it is possible that we may need to incur additional indebtedness in the future in the ordinary course of business. If new debt is added to current debt levels, the risks described above could intensify.

Our credit facility contains covenants which may adversely impact our business, and the failure to comply with such covenants could cause our outstanding debt to become immediately payable.

The Credit Agreement includes a number of customary affirmative and negative covenants, including covenants that limit or restrict us and our subsidiaries' ability to, among other things, grant liens, make investments, incur indebtedness, merge or consolidate, dispose of assets, make acquisitions, pay dividends or make distributions, repurchase stock, enter into transactions with affiliates and enter into restrictive agreements, in each case subject to customary exceptions for a credit facility of this size and type. We are also required to maintain compliance with a consolidated fixed charge coverage ratio and a consolidated secured leverage ratio. Collectively, these covenants could constrain our ability to grow our business through acquisition or engage in other transactions. In addition, the Credit Agreement includes customary events of default that include, among other things, non-payment defaults, covenant defaults, inaccuracy of representations and warranties, cross default to material indebtedness, bankruptcy and insolvency defaults, material judgment defaults, ERISA defaults and a change of control default. The occurrence of an event of default could result in the acceleration of the obligations under the Credit Agreement, which could have a material adverse effect on our liquidity and ability to conduct our business.

Changing laws and increasingly complex corporate governance and public disclosure requirements could have an adverse effect on our business and operating results.

Changing laws, regulations and standards, including those relating to corporate governance, social/environmental responsibility, anticorruption and public disclosure and newly enacted SEC regulations, have created additional compliance requirements for us. Our efforts to comply with these requirements have resulted in an increase in expenses and a diversion of management's time from other business activities. While we believe we are compliant with laws and regulations in jurisdictions where we do business, we must continue to monitor and assess our compliance in the future, and we must also continue to expand our compliance procedures. Any failures in these procedures in the future could result in time-consuming and costly activities, potential fines and penalties, and diversion of management time, all of which could hurt our business.

Our products and services are subject to various federal, state, local, and foreign laws and regulations. Compliance with current laws and regulations has not had a material adverse effect on our financial condition. However, new laws and regulations or new or different interpretations of existing laws and regulations could deny or delay our access to certain markets or require us to incur costs or become the basis for new or increased liabilities t hat could have a material adverse effect on our financial condition and results of operations.

The telecommunications industry is regulated by the Federal Communications Commission in the United States and similar government agencies in other countries and is subject to changing political, economic, and regulatory influences. Changes in telecommunications requirements, or regulatory requirements in other industries in which we operate now or in the future, in the United States or other countries could mate rially adversely affect our business, operating results, and financial condition, including our managed services offering. Further, changes in the regulation of our activities, such as increased or decreased regulation affecting prices, could also have a material adverse effect upon our business and results of operations.

If we have insufficient proprietary rights or if we fail to protect those rights we have, our business could be materially impaired.

We rely on third-party license agreements and termination or impairment of these agreements may cause delays or reductions in product introductions or shipments which could harm our business.

We have licensing agreements with various suppliers for software incorporated into our products. In addition, certain of our products are developed and manufactured based largely or solely on third-party technology. These third-party software licenses and arrangements may not continue to be available to us on commerci ally reasonable or competitive terms, if at all. The termination or impairment of these licenses could result in delays or reductions in new product introductions or current product shipments until equivalent software could be developed, licensed and integrated, which could harm our business and results of operations. Further, if we are unable to obtain necessary technology licenses on commercially reasonable or competitive terms, we could be prohibited from marketing our products, forced to market products without certain features, or incur substantial costs to redesign our products, defend legal actions, or pay damages. In addition, some of our products may include "open source" software. Our ability to commercialize products or technologies incorporating open source software may be restricted because, among other factors, open source license terms may be unclear and may result in unanticipated obligations regarding our product offerings.

We rely on patents, trademarks, copyrights and trade secrets to protect our proprietary rights which may not be sufficient to protect our intellectual property.

We rely on a combination of patent, copyright, trademark and trade secret laws and confidentiality procedures to protect our proprietary rights. Others may independently develop similar proprietary information and techniques or gain access to our intellectual property rights or disclose such technology. In addition, we cannot assure you that any patent or registered trademark owned by us will not be invalidated, ci rcumvented or challenged in the U.S. or foreign countries or that the rights granted thereunder will provide competitive advantages to us or that any of our pending or future patent applications will be issued with the scope of the claims sought by us, if at all. Furthermore, others may develop similar products, duplicate our products or design around our patents. In addition, foreign intellectual property laws may not protect our intellectual property rights. Litigation may be necessary to enforce our patents and other intellectual property rights, to protect our trade secrets, to determine the validity of and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Litigation could result in substantial costs and diversion of resources which could harm our business, and we could ultimately be unsuccessful in protecting our intellectual property rights. Further, our intellectual property protection controls across our global operations may not be adequate to fully protect us from the theft or misappropriation of our intellectual property, which could adversely harm our business.

We face litigation claims that might be costly to resolve and, if resolved adversely, may harm our operating results or financial condition.

We are a party to lawsuits in the normal course of our business. The results of, and costs associated with, complex litigation matters are difficult to predict, and the uncertainty associated with substantial unresolved lawsuits could harm our business, financial condition, and reputation. Negative developments with respect to pending lawsuits could cause our stock price to decline, and an unfavorable resolution of any particular lawsuit could have an adverse effect on our business and results of opera tions. In addition, we may become involved in regulatory investigations or other governmental or private legal proceedings, which could be distracting, expensive and time consuming for us, and if public, may also cause our stock price to be negatively impacted. We expect that the number and significance of claims and legal proceedings that assert patent infringement claims or other intellectual property rights covering our products, either directly against us or against our customers, will increase as our business expands. Any claims or proceedings against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time, result in the diversion of significant operational resources, or require us to enter into royalty or licensing agreements or pay amounts to third parties pursuant to contractual indemnity provisions. Royalty or licensing agreements, if required, may not be available on terms favorable to us or at all. In addition, we expect that we may face legal proceedings for matters unrelated to intellectual property. For example, as described in the section entitled “Legal Proceedings,” a purported shareholder class action suit and shareholder derivative lawsuits were filed against the Company and certain of its current and former officers and directors. Such shareholder activities or lawsuits, and any related publicity, may result in substantial costs and, among other things, divert the attention of management and our employees. An unfavorable outcome in any claim or proceeding against us could have a material adverse impact on our financial position and results of operations for the period in which the unfavorable outcome occurs, and potentially in future periods. Further, any settlement announced by us may expose us to further claims against us by third parties seeking monetary or other damages which, even if unsuccessful, would divert management attention from the business and cause us to incur costs, possibly material, to defend such matters.

If we fail to manage our exposure to the volatility and economic uncertainty in the global financial marketplace successfully, our operating results could be adversely impacted.

We are exposed to financial risk associated with the global financial markets, which includes volatility in interest rates, uncertainty in the credit markets and instability in the foreign currency exchange market. Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio a nd our term loan debt facility. The valuation of our investment portfolio is subject to uncertainties that are difficult to predict. Factors that may impact its valuation include changes to credit ratings or quality of the securities, interest rate changes, the ongoing strength and quality of the global credit market and liquidity. All of the securities in our investment portfolio are investment-grade rated, but the instability of the credit market could impact those ratings and our decision to hold these securities, if they do not meet our minimum credit rating requirements. If we should decide to sell such securities, we may suffer losses in principal value that have significantly declined in value due to the declining credit rating of the securities and the ongoing strength and the global financial markets as a whole. The interest rate on our term loan debt facility is based upon LIBOR and to the extent that LIBOR interest rates increase, our annual interest expense on this term loan debt will increase. With the instability in the financial markets, we could incur significant realized or other than temporary impairment losses associated with certain of our investments which would reduce our net income. We may also incur further temporary impairment charges requiring us to record additional unrealized loss in accumulated other comprehensive income. For more information regarding the sensitivity of and risks associated with the market value of portfolio investments and interest rates, see the section entitled “Quantitative and Qualitative Disclosures About Market Risk.”

Delays or loss of government contracts or failure to obtain required government certifications could have a material adverse effect on our business.

We sell our products indirectly and provide services to governmental entities in accordance with certain regulated contractual arrangements. While reporting and compliance with government contracts is both our responsibility and the responsibility of our partner, a lack of reporting or compliance b y us or our partners could have an impact on the sales of our products to government agencies. Further, the United States Federal government has certain certification and product requirements for products sold to them. If we are unable to meet applicable certification or other requirements within the timeframes specified by the United States Federal government, or if our competitors have certifications for competitive products for which we are not yet certified, our revenues and results of operations would be adversely impacted.

Changes in our tax rates could adversely affect our future results.

We are a U.S. based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. Unanticipated changes in our tax rates could affect our fu ture results of operations. Our future effective tax rates, which are difficult to predict, could be unfavorably affected by changes in, or interpretation of, tax rules and regulations in the jurisdictions in which we do business, by unanticipated decreases in the amount of revenue or earnings in countries with low statutory tax rates, by lapses of the availability of the U.S. research and development tax credit, or by changes in the valuation of our deferred tax assets and liabilities. Further, the accounting for stock compensation expense in accordance with ASC 718 and uncertain tax positions in accordance with ASC 740 could result in more unpredictability and variability to our future effective tax rates.

We are also subject to the periodic examination o f our income tax returns by the Internal Revenue Service and other tax authorities, and in some cases, we have received additional tax assessments. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. We may underestimate the outcome of such examinations which, if significant, would have a material adverse effect on our results of operations and financial condition.

Business interruptions could adversely affect our operations.

Our operations are vulnerable to interruption by fire, earthquake, or other natural disaster, quarantines or other disruptions associated with infectious diseases, national catastrophe, terrorist activities, war, ongoing disturbances in the Middle East, an attack on Israel, disruptions in our computing and communications infrastructure due to power loss, telecommunications failure, human error, physical or electronic security breaches and computer viruses (which could leave us vulnerable t o the loss of our intellectual property or the confidential information of our customers, disruption of our business activities and potential litigation), and other events beyond our control. We have a business continuity program that is based on enterprise risk assessment which addresses the impact of natural, technological, man-made and geopolitical disasters on our critical business functions. This plan helps facilitate the continuation of critical business activities in the event of a disaster but may not prove to be sufficient. In addition, our business interruption insurance may not be sufficient to compensate us for losses that may occur, and any losses or damages incurred by us could have a material adverse effect on our business and results of operations. Further, given our linearity, any interruption of our business, business processes or systems late in a fiscal quarter could potentially negatively impact our financial results for such period.

In the case of our managed services business, any circuit failure or downtime could affect a significant portion of our customers. Since our ability to attract and retain customers depends on our ability to provide customers with highly reliable service, even minor interruptions could harm our reputation, req uire that we incur additional expense to acquire alternative telecommunications capacity, or cause us to miss contractual obligations, which could have a material adverse effect on our operating results and our business.

Our cash flow could fluctuate due to the potential difficulty of collecting our receivables and managing our inventories.

Over the past few years, we have made significant investments in EMEA and Asia to expand our business in these regions. In EMEA and Asia, as with other international regions, credit terms are typically longer than in the United States. Therefore, as Europe, Asia and other international regions grow as a percentage of our revenues, accounts receivable balances increase and our days-sales-outstanding decrease. Although from time to time we have been able to largely offset the effects of these influences through additional incentives offered to channel partners at the end of each quarter in the form of prepay discounts, these additional incentives have lowered our profitability. In addition, economic uncertainty or a downturn in technology spending in the United States and other countries could restrict the availability of capital, which may delay our collections from our channel partners beyond our historical experience or may cause companies to file for bankruptcy. Either a delay in collections or bankruptcy would harm our cash flow and accounts receivable day’s outstanding performance.

In addition, as we manage our business and focus on more cost effective shipment lead times for certain of our products and implement freight cost reduction programs, our inventory levels may increase, resulting in decreased inventory turns that could negatively impact our cash flow. We believe inventory turns will continue to fluctuate depe nding upon our ability to reduce lead times, as well as due to changes in anticipated product demand and product mix and the mix of ocean freight versus air freight.

Our stock price is volatile and fluctuates as a result of the conduct of our business and stock market.

The market price of our common stock has from time to time experienced significant fluctuations. The market price of our common stock may be significantly affected by a variety of factors, including:

- statements or changes in opinions, ratings or earnings estimates made by brokerage firms or industry analysts relating to the market in which we do business, including competitors, partners, suppliers or telecommunications industry leaders or relating to us specifically;
- changes in our executive team or speculation in the press or the investment community about changes;
- the announcement of new products, product enhancements or acquisitions by us or by our competitors;
- technological innovations by us or our competitors;
- quarterly variations in our results of operations;
- failure of our future operating results to meet expectations of stock market analysts or investors, which is inherently subject to greater risk and uncertainty as expectations increase, or any financial guidance we may provide to the market;
- general market conditions or market conditions specific to technology industries; and
- domestic and international macroeconomic factors.

We have experienced volatility in our stock price, which sometimes results in attempts by shareholders to involve themselves in the governance and strategic direction of a company above and apart from normal interactions between shareholders and management. In addition, class action litigation is sometimes instituted following periods of volatility. Such shareholder activities or lawsuits, and any related publicity, may result in substantial costs and, among other things, divert the attention of management and our employees.

We are required to evaluate our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404"), we are required to furnish a report by our management on our internal control over financial reporting. Such report contains, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. While we were able to assert in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, that our internal control over financial reporting was effective as of December 31, 2013, we must continue to monitor and assess our internal control over financial reporting. In addition, our control framework may suffer if we are unable to adapt our control framework appropriately as we continue to grow our business. If we are unable to assert in any future reporting period that our internal control over financial reporting is effective (or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal controls), we could lose investor confidence in the accuracy and completeness of our financial reports, which would have an adverse effect on our stock price.

Changes in existing financial accounting standards or practices may adversely affect our results of operations.

Changes in existing accounting rules or practices, new accounting pronouncements, or varying interpretations of current accounting pronouncements could have a significant adverse effect on our results of operations or result in changes to our business operations in support of such changes. Further, such changes could potentially affect our reporting of transactions completed before such changes are effective.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no sales of unregistered securities during the three months ended March 31, 2014.

Issuer Purchases of Equity Securities

The following table provides a month-to-month summary of the stock purc hase activity during the three months ended March 31, 2014:

Period	Total Number of Shares Purchased(1)(2)	Average Price Paid per Share(1)(2)	Total Number of Shares Purchased as Part of Publicly Announced Plan(2)	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plan(2)
1/1/14 to 1/31/14	327	$ 11.71	—	$ —
2/1/14 to 2/28/14	591,643	$ 13.19	—	$ —
3/1/14 to 3/31/14	1,269	$ 13.38	—	$ —
Total	593,239	$ 13.19	—	

(1) Represents shares repurchased in January through March 2014 to satisfy tax withholding obligations as a result of the vesting of performance shares and restricted stock units.

(2) In September 2013, our Board of Directors authorized the repurchase of $400.0 million, or approximately 20 percent of our outstanding common stock ("Return of Capital Program"), through a $250.0 million modified "Dutch Auction" self-tender offer (the "Tender Offer") and subsequent privately negotiated transactions. We funded the program with $150.0 million in cash and a $250.0 million Term Loan. The Tender Offer expired on October 30, 2013. In December 2013, we entered into separate accelerated share repurchase ("ASR") agreements with two financial institutions to repurchase an aggregate of $114.6 million of common stock as part of the last phase of our $400.0 million Return of Capital Program announced in September 2013. Under the terms of the ASR agreements, we paid an aggregate $114.6 million of cash and received an initial delivery of approximately 8.0 million shares on December 5, 2013. The final number of shares to be repurchased will be based on the Company's volume-weighted average stock price less an agreed upon discount during the term of the transactions. The share repurchase authorization remaining at March 31, 2014 was zero. The transactions are expected to be completed by June 30, 2014 or earlier at the option of the counterparties, or later under certain circumstances. See Note 13 of Notes to Condensed Consolidated Financial Statements for further information.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

Item 4. MINE SAFETY DISCLOSURES

Not Applicable.

Item 5. OTHER INFORMATION

Not Applicable.

Item 6. EXHIBITS

Exhibit No.	Description
10.1(1)*	Release of Claims with Eric F. Brown, dated April 15, 2014.
10.2(1)*	Form of Performance Share Agreement for Officers.
10.3(1)*	Form of Restricted Stock Unit Agreement for Officers.
10.4*	Letter dated January 21, 2014 regarding relocation benefits for Peter A. Leav (which is incorporated herein by reference to Exhibit 10.39 to the Registrant's Annual Report on Form 10-K filed with the Commission on February 21, 2014).
31.1(1)	Certification of the President and Chief Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(c) and 15d-14(a).
31.2(1)	Certification of the Senior Vice President, Chief Accounting Officer and Interim Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(c) and 15d-14(a).
32.1(1)	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Calculation Linkbase Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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* Indicates management contract or compensatory plan or arrangement.
(1) Filed herewith.

SIGNATURE

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.

Dated: May 1, 2014

POLYCOM, INC.

/s/ PETER A. LEAV

Peter A. Leav
President and Chief Executive Officer
(Principal Executive Officer)

/s/ LAURA J. DURR

Laura J. Durr
Senior Vice President, Chief Accounting Officer and
Interim Chief Financial Officer
(Principal Financial Officer
and Principal Accounting Officer)

EXHIBIT INDEX

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* Indicates management contract or compensatory plan or arrangement.
(1) Filed herewith.

Exhibit 10.1

POLYCOM, INC. EXECUTIVE SEVERANCE PLAN

RELEASE OF CLAIMS

This Release of Claims (the " **Release** ") is made by and between Eric F. Brown (" **Executive** ") and Polycom, Inc., a Delaware corporation (the " **Company** ") (collectively referred to as the " **Parties** ").

WHEREAS, Executive is employed by the Company.

WHEREAS, on March 13, 2014 (the " **Announcement Date** "), the Company and Executive announced that Executive is leaving the Company due to the elimination of his position.

WHEREAS, the Company and Executive have agreed, that from March 14, 2014 through April 15, 2014 (the " **Transition Period** "), Executive does not have to report to work, but must remain available to perform any transition duties reasonably requested by the Company.

WHEREAS, in connection with Executive's termination of employment effective as of April 15, 2014 (the " **Separation Date** "), Executive is eligible to receive the severance benefits provided in Section 4 of the Polycom, Inc. Executive Severance Plan (the " **Executive Severance Plan** "), subject to the terms and conditions set forth therein including (but not limited to) entering into a release of claims agreement in favor of the Company and non-solicitation and non-disparagement obligations for a period of twelve (12) months following termination of employment, under Section 6 of the Executive Severance Plan.

WHEREAS, in consideration for such severance benefits provided under the Executive Severance Plan and pursuant to Section 6 of the Executive Severance Plan, the Parties wish to resolve any and all disputes, claims, complaints, grievances, charges, actions, petitions, and demands that Executive may have against the Company and any of the Releasees as defined below, including, but not limited to, any and all claims arising out of or in any way related to Executive's employment with or separation from the Company.

Now, therefore, Executive covenants and agrees as follows:

1. Transition Period . During the Transition Period, the Company shall continue to pay Executive the monthly equivalent of Executive's base salary in accordance with the Company's normal payroll practices and Executive shall remain eligible to participate in the Company's health and welfare plans, the Company's 401(k) Plan, and accrue vacation. During the Transition Period, Executive shall continue to vest in accordance with the terms and conditions of the agreements governing his outstanding equity awards (the " **Equity Award Agreements** "), a schedule of which is attached hereto as **Exhibit A** . All outstanding equity awards that have not yet vested in accordance with their terms on or before the Separation Date shall cease to vest and shall be forfeited as of such date, and never shall become vested.

2. Position Resignation . On the Announcement Date, Executive will be deemed to have resigned voluntarily from all Company and Company subsidiary positions held by him, without any further required action by the Executive; provided however, if the Company or subsidiary requests, Executive will execute any documents necessary to reflect his resignation from such positions. Notwithstanding the foregoing, Executive will remain an employee of the Company until the Separation Date.

3. Timing of Cash Severance Payment . Subject to the terms and conditions set forth in the Executive Severance Plan, any cash severance benefits payable pursuant to Section 4.1.1. of the Executive Severance Plan will be paid on October 17, 2014, pursuant to Section 9.1 of the Executive Severance Plan.

4. Non-solicitation and Non -disparagement . Executive agrees that, for a period of twelve (12) months following his Separation Date, Executive will comply with the non-solicitation and non-disparagement obligations set forth in Sections 6.2 and 6.4 of the Executive Severance Plan.

5. Non-competition . The Parties agree that Executive will not be subject to the non-competition obligation set forth in Section 6.3 of the Executive Severance Plan.

6. Release of Claims . Executive agrees that the severance benefits under the Executive Severance Plan represents settlement in full of all outstanding obligations owed to Executive by the Company and its current and former officers, directors, employees, agents, investors, attorneys, shareholders, administrators, affiliates, benefit plans, plan administrators, insurers, divisions, and subsidiaries, and predecessor and successor corporations and assigns (collectively, the " **Releasees** "). Executive, on his own behalf and on behalf of his respective heirs, family members, executors, agents, and assigns, hereby and forever releases the Releasees

from, and agrees not to sue concerning, or in any manner to institute, prosecute, or pursue any claim, complaint, charge, duty, obligation, demand, or cause of action relating to any matters of any kind, whether presently known or unknown, suspected or unsuspected, that Executive may possess against any of the Releasees arising from any omissions, acts, facts, or damages that have occurred up until and including the Effective Date of this Release (as defined in Section 19 below), including, without limitation:

a. any and all claims relating to or arising from Executive's employment relationship with the Company and the termination of that relationship;

b. any and all claims relating to, or arising from, Executive's right to purchase or actual purchase of shares of stock of the Company, including, without limitation, any claims for fraud, misrepresentation, breach of fiduciary duty, breach of duty under applicable state corporate law, and securities fraud under any state or federal law;

c. any and all claims for wrongful discharge of employment; termination in violation of public policy; discrimination; harassment; retaliation; breach of contract, both express and implied; any obligations under any agreement providing stock options, restricted stock , or other rights to acquire common stock of the Company; breach of covenant of good faith and fair dealing, both express and implied; promissory estoppel; negligent or intentional infliction of emotional distress; fraud; negligent or intentional misrepresentation; negligent or intentional interference with contract or prospective economic advantage; unfair business practices; defamation; libel; slander; negligence; personal injury; assault; battery; invasion of privacy; false imprisonment; conversion; and disability benefits;

d. any and all claims for violation of any federal, state, or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964; the Civil Rights Act of 1991; the Rehabilitation Act of 1973; the Americans with Disabilities Act of 1990; the Equal Pay Act; the Fair Labor Standards Act, except as prohibited by law; the Fair Credit Reporting Act; the Age Discrimination in Employment Act of 1967; the Older Workers Benefit Protection Act; the Employee Retirement Income Security Act of 1974; the Worker Adjustment and Retraining Notification Act; the Family and Medical Leave Act, except as prohibited by law; the Sarbanes-Oxley Act of 2002; the Uniformed Services Employment and Reemployment Rights Act; the California Family Rights Act; the California Labor Code, except as prohibited by law; the California Workers' Compensation Act, except as prohibited by law; and the California Fair Employment and Housing Act;

e. any and all claims for violation of the federal or any state constitution;

f. any and all claims arising out of any other laws and regulations relating to employment or employment discrimination;

g. any claim for any loss, cost, damage, or expense arising out of any dispute over the non-withholding or other tax treatment of any of the proceeds payable to Executive pursuant to the Executive Severance Plan; and

h. any and all claims for attorneys' fees and costs.

Executive agrees that the release set forth in this section shall be and remain in effect in all respects as a complete general release as to the matters released. This release does not extend to any obligations incurred under the Executive Severance Plan or the Release. This release does not release claims that cannot be released as a matter of law, including, but not limited to: (1) Executive's right to file a charge with or participate in a charge by the Equal Employment Opportunity Commission, or any other local, state, or federal administrative body or government agency that is authorized to enforce or administer laws related to employment, against the Company (with the understanding that any such filing or participation does not give Executive the right to recover any monetary damages against the Company; Executive's release of claims herein bars Executive from recovering such monetary relief from the Company); (2) claims under Division 3, Article 2 of the California Labor Code (which includes California Labor Code section 2802 regarding indemnity for necessary expenditures or losses by Executive); and (3) claims prohibited from release as set forth in California Labor Code section 206.5 (specifically "any claim or right on account of wages due, or to become due, or made as an advance on wages to be earned, unless payment of such wages has been made").

This release set forth above does not include or in any way limit Executive's rights to indemnification and advancement of legal or other expenses, including (without limitation) travel and lodging, whether under Executive's Indemnification Agreement, dated February 21, 2012, attached hereto as **Exhibit B** (the " **Indemnification Agreement** "), the Company's Amended and Restated Bylaws, (the "Bylaws") the articles or certificate of incorporation and by-laws of any of the Company's wholly-owned direct or indirect subsidiaries, including the Company, Delaware law, California law, the law of the state of incorporation of any of the Company's wholly-owned direct or indirect subsidiaries, or any other law or source (collectively, " **Indemnification and Advancement Rights** "). Such Indemnification and Advancement Rights will include, but not be limited to, any investigating, defending, being a witness in, participating in (including an appeal), cooperating with the defense, or preparing for any investigations, lawsuits, or regulatory proceedings involving the Company.

7. Acknowledgment of Waiver of Claims under ADEA . Executive understands and acknowledges that he is waiving and releasing any rights he may have under the Age Discrimination in Employment Act of 1967 (" **ADEA** "), and that this waiver and release is knowing and voluntary. Executive understands and agrees that this waiver and release does not apply to any rights or claims that may arise under the ADEA after the Effective Date of this Release. Executive understands and acknowledges that the consideration given for this waiver and release is in addition to anything of value to which Executive was already entitled. Executive further understands and acknowledges that he has been advised by this writing that: (a) he should consult with an attorney prior to executing this Release; (b) he has twenty-one (21) days after his Separation Date within which to consider this Release; (c) he has seven (7) days following his execution of this Release to revoke this Release; (d) this Release shall not be effective until after the revocation period has expired; and (e) nothing in this Release prevents or precludes Executive from challenging or seeking a determination in good faith of the validity of this waiver under the ADEA, nor does it impose any condition precedent, penalties, or costs for doing so, unless specifically authorized by federal law. In the event Executive signs this Release and returns it to the Company in less than the 21-day period identified above, Executive hereby acknowledges that he has freely and voluntarily chosen to waive the time period allotted for considering this Release. Executive acknowledges and understands that revocation must be accomplished by a written notification to the person executing this Release on the Company's behalf that is received prior to the Effective Date. The parties agree that changes, whether material or immaterial, do not restart the running of the 21-day period.

8. California Civil Code Section 1542 . Executive acknowledges that he has been advised to consult with legal counsel and is familiar with the provisions of California Civil Code Section 1542, a statute that otherwise prohibits the release of unknown claims, which provides as follows:

> A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

Executive, being aware of said code section, agrees to expressly waive any rights he may have thereunder, as well as under any other statute or common law principles of similar effect.

9. No Pending or Future Lawsuits . Executive represents that he has no lawsuits, claims, or actions pending in his name, or on behalf of any other person or entity, against the Company or any of the other Releasees. Executive also represents that he does not intend to bring any claims on his own behalf or on behalf of any other person or entity against the Company or any of the other Releasees.

10. Trade Secrets and Confidential Information/Company Property . Executive reaffirms and agrees to observe and abide by the terms of the Proprietary Information and Invention Agreement dated February 11, 2012 (the " **Confidentiality Agreement** "), specifically including the provisions therein regarding non-disclosure of the Company's trade secrets and confidential and proprietary information, and non-solicitation of the Company's employees. Executive agrees and acknowledges that Executive continues to be bound by those obligations to preserve and protect the Company's trade secrets and confidential and proprietary information even after Executive's employment has ended. Executive's signature below constitutes his certification under penalty of perjury that he has returned all documents and other items provided to Executive by the Company, developed or obtained by Executive in connection with his employment with the Company, or otherwise belonging to the Company.

11. No Cooperation . Executive further agrees that he will not knowingly encourage, counsel, or assist any attorneys or their clients in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints by any third party against any of the Releasees, unless under a subpoena or other court order to do so or as related directly to the ADEA waiver in this Release. Executive agrees both to immediately notify the Company upon receipt of any such subpoena or court order, and to furnish, within three (3) business days of its receipt, a copy of such subpoena or other court order. If approached by anyone for counsel or assistance in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints against any of the Releasees, Executive shall state no more than that he cannot provide counsel or assistance.

12. No Representations . Executive represents that he has had an opportunity to consult with an attorney and has carefully read and understands the scope and effect of the provisions of this Release. Executive has not relied upon any representations or statements made by the Company that are not specifically set forth in this Release.

13. Severability . In the event that any provision or any portion of any provision hereof or any surviving agreement made a part hereof becomes or is declared by a court of competent jurisdiction or arbitrator to be illegal, unenforceable, or void, this Release shall continue in full force and effect without said provision or portion of provision.

14. Breach . Executive acknowledges and agrees that any material breach of this Release, unless such breach constitutes a legal action by Executive challenging or seeking a determination in good faith of the validity of the waiver herein under the ADEA,

shall entitle the Company immediately to recover and/or cease providing the consideration provided to Executive under the Executive Severance Plan. Except as provided by law, Executive shall also be responsible to the Company for all costs, attorneys' fees, and any and all damages incurred by the Company in (a) enforcing Executive's obligations under this Release or under the Executive Severance Plan including the bringing of any action to recover the consideration, and (b) defending against a claim or suit brought or pursued by Executive in violation of the terms of this Release.

15. Entire Agreement. This Release represents the entire agreement and understanding between the Company and Executive concerning the subject matter of this Release and Executive's employment with and separation from the Company and the events leading thereto and associated therewith, and supersedes and replaces any and all prior agreements and understandings concerning the subject matter of this Release and Executive's relationship with the Company, including Executive's Change of Control Severance Agreement, effective as of February 21, 2012, with the exception of the Executive Severance Plan, the Confidentiality Agreement, and written equity agreements entered into between Executive and the Company. In addition, the Company hereby acknowledges and agrees to comply with its obligations to maintain directors' and officers' liability insurance ("**D&O Insurance**") as set forth in Section 9 of the Indemnification Agreement with respect to Executive's employment at the Company.

16. No Oral Modification. This Release may only be amended in a writing signed by Executive and a duly authorized officer of the Company.

17. Governing Law. This Release shall be governed by the laws of the State of California, without regard for choice-of-law provisions. Executive consents to personal and exclusive jurisdiction and venue in the State of California.

18. Voluntary Execution of Release. Executive understands and agrees that he executed this Release voluntarily, without any duress or undue influence on the part or behalf of the Company or any third party, with the full intent of releasing all of his claims against the Company and any of the other Releasees. Executive acknowledges that:

(a) He has read this Release;

(b) He has been represented in the preparation, negotiation, and execution of this Release by legal counsel of his own choice or has elected not to retain legal counsel;

(c) He understands the terms and consequences of this Release and of the releases it contains; and

(d) He is fully aware of the legal and binding effect of this Release.

19. Effective Date. Executive understands that this Release shall be null and void, and Executive will forfeit any severance benefits under the Executive Severance Plan in accordance with the terms herein and therein, if this Release is not executed by Executive within twenty-one (21) days after his Separation Date. This Release will become effective on the eighth (8^{th}) day after Executive signs this Release, so long as it has not been revoked by Executive before that date (the "**Effective Date**"). Any notice of revocation must be sent by certified mail to the attention of the General Counsel at the Company's San Jose, CA headquarters.

IN WITNESS HEREOF, Executive has executed this Release of Claims as of the date set forth below.

Dated: April 15, 2014

/s/ Eric F. Brown
ERIC F. BROWN

EXHIBIT A

Equity Awards of Eric F. Brown, Outstanding as of April 15, 2014

EXHIBIT B

Indemnification Agreement

Exhibit 10.2

[FORM OF OFFICER PERFORMANCE SHARE AGREEMENT]

POLYCOM, INC.

PERFORMANCE SHARE AGREEMENT

[NAME]
Employee ID Number: **[Number]**

NOTICE OF GRANT

Polycom, Inc. (the "Company") hereby grants you, **[Name]** (the "Employee"), an award of Performance Shares under the Company's 2011 Equity Incentive Plan (the "Plan"). The date of this Performance Share Agreement (the "Agreement") is **[DATE]** (the "Grant Date"). Subject to the provisions of Appendix A (attached), Appendix B (attached) and of the Plan, the principal features of this award are as follows:

Target Number of Performance Shares:	**[________]**
Performance Periods:	**[INSERT PERFORMANCE PERIOD]**
Performance Matrix:	The number of Performance Shares in which you may vest in accordance with the Vesting Schedule will depend upon achievement of targets in **[INSERT DESCRIPTION OF PERFORMANCE GOALS]** and will be determined in accordance with the Performance Matrix, attached hereto as Appendix B.
Vesting Schedule:	[**INSERT DESCRIPTION OF VESTING SCHEDULE] ***

IMPORTANT:

* Except as otherwise provided in Appendix A, Employee will not vest in the Performance Shares unless he or she is employed by the Company or one of its Subsidiaries through the applicable vesting date.

Your signature below indicates your agreement and understanding that this award is subject to all of the terms and conditions contained in Appendix A, Appendix B and the Plan. For example, important additional information on vesting and forfeiture of the Performance Shares is contained in paragraphs 3 through 5 and paragraph 7 of Appendix A, and in Appendix B. **PLEASE BE SURE TO READ ALL OF APPENDIX A AND APPENDIX B, WHICH CONTAIN THE SPECIFIC TERMS AND CONDITIONS OF THIS AGREEMENT.**

POLYCOM, INC.	**EMPLOYEE**
________________________________	________________________________
[NAME]	**[NAME]**
________________________________	
[TITLE]	
Date: ___________ , 201_	Date: ___________ , 201_

APPENDIX A

TERMS AND CONDITIONS OF PERFORMANCE SHARES

1. Grant. The Company hereby grants to the Employee under the Plan an award of the Target Number of Performance Shares set forth on the Notice of Grant, subject to all of the terms and conditions in this Agreement and the Plan. As of the date of grant, the Employee is an executive officer of the Company who is subject to Section 16 of the 1934 Act. The Performance Shares in which the Employee may vest shall depend upon achievement **[INSERT DESCRIPTION OF PERFORMANCE GOALS]** for the Performance Period and shall be determined in accordance with the Performance Matrix, attached hereto as Appendix B. In accordance with the Performance Matrix, the number of the Performance Shares in which the Employee may vest will range **[INSERT APPLICABLE RANGE]** . The number of such Shares shall be determined by the Committee following the end of the Performance Period, and shall be certified by the Committee following the end of each Performance Period. When Shares are paid to the Employee in payment for the Performance Shares, par value will be deemed paid by the Employee for each Performance Share by past services rendered by the Employee, and will be subject to the appropriate tax withholdings. Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to them in the Plan.

(a) As used herein, **[INSERT APPLICABLE DEFINITIONS]**

2. Company's Obligation to Pay. Each Performance Share has a value equal to the Fair Market Value of a Share on the date that the Performance Share is granted. Unless and until the Performance Shares have vested in the manner set forth in paragraphs 3 through 5, the Employee will have no right to payment of such Performance Shares. Prior to actual payment of any vested Performance Shares, such Performance Shares will represent an unsecured obligation. Payment of any vested Performance Shares shall be made in whole Shares only.

3. Vesting Schedule/Period of Restriction. Except as provided in paragraphs 4 and 5, and subject to paragraph 7, the Performance Shares awarded by this Agreement shall vest in accordance with the vesting provisions set forth on the first page of this Agreement. Performance Shares shall not vest in the Employee in accordance with any of the provisions of this Agreement unless the Employee shall have been continuously employed by the Company or by one of its Subsidiaries from the Grant Date until the date the Performance Shares are otherwise scheduled to vest.

4. Modifications to Vesting Schedule.

(a) *Vesting upon Leave of Absence* . In the event that the Employee takes an authorized leave of absence ("LOA"), the Performance Shares awarded by this Agreement that are scheduled to vest shall be modified as follows:

(i) if the duration of the Employee's LOA is sixty (60) days or less, the vesting schedule set forth on the first page of this Agreement shall not be affected by the Employee's LOA.

(ii) if the duration of the Employee's LOA is greater than sixty (60) days, the scheduled vesting of any Performance Shares awarded by this Agreement that are not then vested shall be deferred for a period of time equal to the duration of the Employee's LOA.

(b) *Death or Disability of Employee* . In the event that the Employee incurs a Termination of Service due to his or her death or Disability during a Performance Period, the Employee shall immediately vest **[INSERT DESCRIPTION OF VESTING CONDITIONS]** .

In the event that any applicable law limits the Company's ability to accelerate the vesting of this award of Performance Shares, this paragraph 4(b) shall be limited to the extent required to comply with applicable law.

(c) *Change in Control* .

(i) In the event of a Change in Control, this award shall be subject to the definitive agreement governing such Change in Control. Such agreement, without the Employee's consent and notwithstanding any provision to the contrary in this Agreement or the Plan, must provide for one of the following: (a) the assumption of this award by the surviving corporation or its parent; (b) the substitution by the surviving corporation or its parent of an award with substantially the same terms as this award; or (c) the cancellation of this award after full vesting and payment to the Employee of the Shares then subject to the award; provided, however, that such Shares shall be considered delivered effective as of immediately prior to the Change in Control so as to enable the Employee to participate in the Change in Control transaction. In the event the definitive agreement does not provide for one of the foregoing alternatives with respect to the treatment of this award, this award shall have the treatment specified in clause (c) of the preceding sentence. The Committee may, in its sole discretion, accelerate the vesting of this award in connection with a Change in Control. For purposes of this Agreement, "Change in Control" means the occurrence of any of the following events: (a) any "person" (as such term is used in Sections 13(d) and 14(d) of the 1934 Act) becomes the "beneficial owner" (as defined in Rule 13d-3 of the 1934 Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total voting power represented by the Company's then outstanding voting securities; (b) the consummation of the sale or disposition by the Company of all or substantially all of the Company's assets; (c) a change in the composition of the Board occurring within a one-year period, as a result of which fewer than a majority of the directors are Incumbent Directors; or (d) the consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation. "Incumbent Directors" means directors who either (A) are Directors as of the effective date of the Plan, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the Directors at the time of such election or nomination (but will not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company). Notwithstanding the foregoing, if the Employee is a party to a change of control agreement with the Company, the definition of "change of control" as defined in the change of control agreement will supersede the above definition.

(ii) Notwithstanding anything herein to the contrary, in the event the Employee incurs a Termination of Service within twelve (12) months following a Change in Control on account of a termination by the Company (or any Subsidiary) for any reason other than Cause or on account of a termination by the Employee for Good Reason, then this award immediately will vest in one hundred percent (100%) of the Performance Shares subject to this Performance Share award.

For purposes of this Agreement, "Good Reason" means without the Employee's written consent (a) a material reduction in the Employee's authority, duties or responsibilities compared to the Employee's authority, duties and responsibilities immediately prior to the Change of Control that are substantially inconsistent with the Employee being a senior executive of the Company (or a Subsidiary), (b) the Employee's principal work location being moved more than 35 miles, from the location immediately prior to the Change in Control or (c) the Company (or a Subsidiary) materially reducing the Employee's base salary (unless the base salaries of substantially all other senior executives of the Company are similarly reduced). Employee will not resign for Good Reason without first providing the Company with written notice of the acts or omissions constituting the grounds for "Good Reason" within ninety (90) days of the initial existence of the grounds for "Good Reason" and the Company must have an opportunity within thirty (30) days following delivery of such notice to cure the Good Reason condition. Notwithstanding the foregoing, if the Employee is a party to a change of control agreement with the Company, the definition of "good reason" as defined in the change of control agreement will supersede the above definition.

For purposes of this Agreement, "Cause" means (a) the Employee's failure to perform (other than due to Disability or death) the duties of the Employee's position (as they may exist from time to time) to the reasonable satisfaction of the Company (or any Subsidiary) after receipt of a written warning and at least 15 days' opportunity to for the Employee to cure the failure, (b) any act of dishonesty taken by the Employee in connection with the Employee's responsibilities as an employee that is intended to result in the Employee's substantial personal enrichment, (c) the Employee's conviction or plea of no contest to a crime that negatively reflects on the Employee's fitness to perform the Employee's duties or harms the Company's (or any Subsidiary's) reputation or business, (d) the Employee's willful misconduct that is injurious to the Company (or any Subsidiary), or (e) the Employee's willful violation of a material Company (or Subsidiary) policy. The preceding definition shall not be deemed to be inclusive of all the acts or omissions that the Company (or any Subsidiary) may consider as grounds for the dismissal or discharge of the Employee or any other individual in the service of the Company (or any Subsidiary). Notwithstanding the foregoing, if the Employee is a party to a change of control agreement with the Company, the definition of "cause" as defined in the change of control agreement will supersede the above definition.

(iii) In the event of a Change in Control during any Performance Period, all Performance Periods shall be deemed to end immediately prior to the Change in Control and the number of Performance Shares in which the Employee shall be entitled to vest in accordance with the terms of this Agreement and the Vesting Schedule set forth on the Notice of Grant shall be one hundred percent (100%) of the Target Number of Performance Shares (as set forth on the Notice of Grant) less the number of vested Performance Shares.

5. Committee Discretion. If the Committee, in its sole discretion, determines that a "Triggering Event" has occurred, then the Committee, also in its sole discretion, may reduce (including to zero) the number of Performance Shares that vest under the Agreement at any time prior to any Vesting Date that occurs after the date of the Triggering Event. For purposes of this Agreement, "Triggering Event" means (a) the Company being required to restate any financial statement issued since the Grant Date with the result that the Company's reported results are materially, negatively reduced, (b) any act of fraud taken by the Employee in connection with the Employee's responsibilities as an employee that is intended to result in the Employee's substantial personal enrichment, (c) the Employee's material violation of a federal, state or local law or regulation applicable to the Company's business that has a

significant negative effect on the Company's reputation or business, (d) a material breach of the Employee's fiduciary duty owed to the Company that has a significant negative effect on the Company's reputation or business, or (e) the average Fair Market Value of a Share during the last thirty (30) days of a Performance Period is at least forty percent (40%) higher than the average Fair Market Value of a Share during the immediately preceding ninety (90) days of the same Performance Period. Notwithstanding any contrary provision of the first sentence of this paragraph 4, in the case of Triggering Event that occurs solely on account of clause (e) of the preceding sentence, the Committee may not reduce the number of Performance Shares that vest for a Performance Period below the Target Number of Performance Shares for that Performance Period. In exercising its discretion, the Committee may consider (but not by way of limitation) whether the foregoing increase in the Fair Market Value of a Share was due to factors unrelated to Company and/or management performance, including, but not limited to, takeover speculation.

6. Payment after Vesting . Any Performance Shares that vest in accordance with paragraphs 3 through 4 will be paid to the Employee (or in the event of the Employee's death, to his or her estate) in Shares as soon as practicable following the date of vesting, subject to paragraph 9, but in no event later than the applicable two and one-half (2½) month period of the "short-term deferral" rule set forth in the Section 1.409A-1(b)(4) of the Treasury Regulations issued under Section 409A. Notwithstanding the foregoing, if the Performance Shares are "deferred compensation" within the meaning of Section 409A, the vested Performance Shares will be released to the Employee (or in the event of the Employee's death, to his or her estate) in Shares as soon as practicable following the date of vesting, subject to paragraph 9, but in no event later than the end of the calendar year that includes the date of vesting or, if later, the fifteen (15th) day of the third (3rd) calendar month following the date of vesting (provided that the Employee will not be permitted, directly or indirectly, to designate the taxable year of the payment). Further, if some or all of the Performance Shares that are "deferred compensation" within the meaning of Section 409A vest on account of the Employee's Termination of Service (other than due to death) in accordance with paragraphs 3 through 4, the Performance Shares that vest on account of the Employee's Termination of Service will not be considered due or payable until the Employee has a "separation from service" within the meaning of Section 409A. In addition, if the Employee is a "specified employee" within the meaning of Section 409A at the time of the Employee's separation from service (other than due to death), then any accelerated Performance Shares will be paid to the Employee no earlier than six (6) months and one (1) day following the date of the Employee's separation from service unless the Employee dies following his or her separation from service, in which case, the Performance Shares will be paid to the Employee's estate as soon as practicable following his or her death, subject to paragraph 9. Any Performance Shares that vest in accordance with paragraph 5 will be paid to the Employee (or in the event of the Employee's death, to his or her estate) in Shares in accordance with the provisions of such paragraph, subject to paragraph 9. For each Performance Share that vests, the Employee will receive one Share. For purposes of this Agreement, "Section 409A" means Section 409A of the U.S. Internal Revenue Code of 1986, as amended, and any final Treasury Regulations and other Internal Revenue Service guidance thereunder, as each may be amended from time to time ("Section 409A").

7. Forfeiture . Notwithstanding any contrary provision of this Agreement, (a) the balance of the Performance Shares that have not vested pursuant to paragraphs 3 through 5 at the time of the Employee's Termination of Service for any or no reason will be forfeited immediately and automatically transferred to and reacquired by the Company at no cost to the Company, and (b) any Performance Shares that never will vest due to non-satisfaction of the goals contained in the Performance Matrix will be forfeited on the date on which the goals no longer can be satisfied and the Performance Shares automatically will be transferred to and reacquired by the Company at no cost to the Company. In addition, any Performance Shares that have not vested **[INSERT DESCRIPTION OF VESTING SCHEDULE]** shall be forfeited and automatically transferred to and reacquired by the Company at no cost to the Company.

8. Death of Employee . Any distribution or delivery to be made to the Employee under this Agreement will, if the Employee is then deceased, be made to the administrator or executor of the Employee's estate. Any such administrator or executor must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

9. Withholding of Taxes . When Shares are issued as payment for vested Performance Shares, the Company (or the employing Subsidiary) will withhold a portion of the Shares that have an aggregate market value sufficient to pay federal, state, local and foreign income, social insurance, employment and any other applicable taxes required to be withheld by the Company or the employing Subsidiary with respect to the Shares, unless the Company, in its sole discretion, either requires or otherwise permits the Employee to make alternate arrangements satisfactory to the Company for such withholdings in advance of the arising of any withholding obligations. The number of Shares withheld pursuant to the prior sentence will be rounded up to the nearest whole Share, with no refund for any value of the Shares withheld in excess of the tax obligation as a result of such rounding. Notwithstanding any contrary provision of this Agreement, no Shares will be issued unless and until satisfactory arrangements (as determined by the Company) have been made by the Employee with respect to the payment of any income and other taxes which the Company determines must be withheld or collected with respect to such Shares. In addition and to the maximum extent permitted by law, the Company (or the employing Subsidiary) has the right to retain without notice from salary or other amounts payable to the Employee, cash having a sufficient value to satisfy any tax withholding obligations that the Company determines cannot be satisfied through the withholding of otherwise deliverable Shares. All income and other taxes related to the Performance Shares award and any Shares

delivered in payment thereof are the sole responsibility of the Employee. By accepting this award, the Employee expressly consents to the withholding of Shares and to any additional cash withholding as provided for in this paragraph 9.

10. Rights as Stockholder. Neither the Employee nor any person claiming under or through the Employee will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares (which may be in book entry form) will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to the Employee (including through electronic delivery to a brokerage account). After such issuance, recordation and delivery, the Employee will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

11. No Effect on Employment. Subject to any employment contract with the Employee, the terms of such employment will be determined from time to time by the Company, or the Subsidiary employing the Employee, as the case may be, and the Company, or the Subsidiary employing the Employee, as the case may be, will have the right, which is hereby expressly reserved, to terminate or change the terms of the employment of the Employee at any time for any reason whatsoever, with or without good cause. The transactions contemplated hereunder and the vesting schedule set forth on the first page of this Agreement do not constitute an express or implied promise of continued employment for any period of time. A leave of absence or an interruption in service (including an interruption during military service) authorized or acknowledged by the Company or the Subsidiary employing the Employee, as the case may be, shall not be deemed a Termination of Service for the purposes of this Agreement.

12. Address for Notices. Any notice to be given to the Company under the terms of this Agreement will be addressed to the Company, in care of its General Counsel, at 6001 America Center Dr., P.O. Box 641390, San Jose, CA 95164, or at such other address as the Company may hereafter designate in writing.

13. Grant is Not Transferable. Except to the limited extent provided in this Agreement, this grant of Performance Shares and the rights and privileges conferred hereby will not be sold, pledged, assigned, hypothecated, transferred or disposed of any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process, until the Employee has been issued Shares in payment of the Performance Shares. Upon any attempt to sell, pledge, assign, hypothecate, transfer or otherwise dispose of this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

14. Restrictions on Sale of Securities. The Shares issued as payment for vested Performance Shares under this Agreement will be registered under U.S. federal securities laws and will be freely tradable upon receipt. However, an Employee’s subsequent sale of the Shares may be subject to any market blackout-period that may be imposed by the Company and must comply with the Company’s insider trading policies, and any other applicable securities laws.

15. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

16. Additional Conditions to Issuance of Certificates for Shares. The Company shall not be required to issue any certificate or certificates for Shares hereunder prior to fulfillment of all the following conditions: (a) the admission of such Shares to listing on all stock exchanges on which such class of stock is then listed; (b) the completion of any registration or other qualification of such Shares under any U.S. state or federal law or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body, which the Committee shall, in its absolute discretion, deem necessary or advisable; (c) the obtaining of any approval or other clearance from any U.S. state or federal governmental agency, which the Committee shall, in its absolute discretion, determine to be necessary or advisable; and (d) the lapse of such reasonable period of time following the date of vesting of the Performance Shares as the Committee may establish from time to time for reasons of administrative convenience.

17. Plan Governs. This Agreement is subject to all the terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan will govern.

18. Committee Authority. The Committee will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Performance Shares have vested). All actions taken and all interpretations and determinations made by the Committee in good faith will be final and binding upon the Employee, the Company and all other interested persons. No member of the Committee will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

19. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

20. Agreement Severable. In the event that any provision in this Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

21. Modifications to the Agreement. This Agreement constitutes the entire understanding of the parties on the subjects covered. The Employee expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Agreement, the Company reserves the right to revise this Agreement as it deems necessary or advisable, in its sole discretion and without the consent of the Employee, to comply with Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A prior to the actual payment of Shares pursuant to this award of Performance Shares, provided that any such revisions shall not materially reduce the benefits intended to be conferred by this Agreement. However, in no event will the Company be obligated to make any such revision and in all events, the Employee will be solely responsible for any taxes that may be owed under Section 409A on account of this award of Performance Shares.

22. Amendment, Suspension or Termination of the Plan. By accepting this Performance Shares award, the Employee expressly warrants that he or she has received a right to receive stock under the Plan, and has received, read and understood a description of the Plan. The Employee understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

23. Labor Law. By accepting this Performance Shares award, the Employee acknowledges that: (a) the grant of these Performance Shares is a one-time benefit which does not create any contractual or other right to receive future grants of Performance Shares, or benefits in lieu of Performance Shares; (b) all determinations with respect to any future grants, including, but not limited to, the times when, if at all, any future Performance Shares shall be granted, the number of Performance Shares which may be subject to each Performance Share award and the time or times when such Performance Shares may vest, will be at the sole discretion of the Company; (c) the Employee's participation in the Plan is voluntary; (d) the value of these Performance Shares is an extraordinary item of compensation which is outside the scope of the Employee's employment contract, if any; (e) these Performance Shares are not part of the Employee's normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments; (f) the vesting of these Performance Shares will cease upon termination of employment for any reason except as may otherwise be explicitly provided in the Plan or this Agreement; (g) the future value of the underlying Shares is unknown and cannot be predicted with certainty; (h) these Performance Shares have been granted to the Employee in the Employee's status as an employee of the Company or its Subsidiaries; (i) any claims resulting from these Performance Shares shall be enforceable, if at all, against the Company; and (j) there shall be no additional obligations for any Subsidiary employing the Employee as a result of these Performance Shares.

24. Disclosure of Employee Information. By accepting this Performance Shares award, the Employee consents to the collection, use and transfer of personal data as described in this paragraph. The Employee understands that the Company and its Subsidiaries hold certain personal information about him or her, including his or her name, home address and telephone number, date of birth, social security or identity number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all awards of Performance Shares or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in his or her favor, for the purpose of managing and administering the Plan ("Data"). The Employee further understands that the Company and/or its Subsidiaries will transfer Data among themselves as necessary for the purpose of implementation, administration and management of his or her participation in the Plan, and that the Company and/or any of its Subsidiaries may each further transfer Data to any third parties assisting the Company in the implementation, administration and management of the Plan. The Employee understands that these recipients may be located in the European Economic Area, or elsewhere, such as in the U.S. The Employee authorizes the Company to receive, possess, use, retain and transfer the Data in electronic or other form, for the purposes of implementing, administering and managing his or her participation in the Plan, including any requisite transfer to a broker or other third party with whom he or she may elect to deposit any Shares of stock acquired from this award of Performance Shares of such Data as may be required for the administration of the Plan and/or the subsequent holding of Shares of stock on his or her behalf. The Employee understands that he or she may, at any time, view the Data, require any necessary amendments to the Data or withdraw the consent herein in writing by contacting the Equity Programs Department for the Company and/or its applicable Subsidiaries.

25. Notice of Governing Law. This award of Performance Shares shall be governed by, and construed in accordance with, the laws of the State of California, without regard to principles of conflict of laws.

26. Non-Compete. The Employee agrees that for the period commencing on the date the Employee executes this Agreement and ending on the date occurring twelve (12) months after the Employee incurs a Termination of Service (the "Obligations Period"), the Employee, directly or indirectly, whether as an employee, owner, sole proprietor, partner, director, member, consultant, agent, founder, co-venturer or otherwise, will (a) not engage, participate or invest in any business activity anywhere in the world that

is directly competitive with the principal products or services of the Company and its subsidiaries (the “Businesses”) (except that it will not be a violation of this paragraph 26 for the Employee to own as a passive investment not more than one percent of any class of publicly traded securities of any entity); nor (b) solicit business from any of the Businesses’ customers and users on behalf of any business that directly competes with the Businesses. Notwithstanding any contrary provision of this Agreement, the Committee, in its discretion, may choose to waive the requirements of this paragraph 26 (including, but not limited to, upon the advice of legal counsel to the Company), and shall waive such requirements in circumstances where enforceability of this paragraph 26 is precluded by applicable law. This paragraph 26 will not apply to any Employee whose principal work location is in the State of California.

27. Non-Solicit . The Employee agrees that for the Obligations Period, the Employee will not either directly or indirectly solicit, induce, recruit, or encourage any of the Company’s employees to leave their employment, or take away such employees, either for the benefit of the Employee or on behalf of another entity; provided, however, this provision is not enforceable with respect to the Employee’s administrative assistant.

APPENDIX B

PERFORMANCE MATRIX

OFFICER RESTRICTED STOCK UNIT AGREEMENT – TIME-BASED VESTING

POLYCOM, INC.

RESTRICTED STOCK UNIT AGREEMENT

[**NAME**]
Employee ID Number: [**Number**]

NOTICE OF GRANT

Polycom, Inc. (the "Company") hereby grants you, **[Name]** (the "Employee"), an award of Restricted Stock Units under the Company's 2011 Equity Incentive Plan (the "Plan"). The date of this Restricted Stock Unit Agreement (the "Agreement") is **[DATE]** (the "Grant Date"). Subject to the provisions of Appendix A (attached) and of the Plan, the principal features of this award are as follows:

Number of Restricted Stock Units:	**[Shares]**
Vesting Schedule:	The Restricted Stock Units will vest in accordance with the following schedule : **[INSERT DESCRIPTION OF VESTING SCHEDULE]** .*

IMPORTANT *:*

* Except as otherwise provided in Appendix A, Employee will not vest in the Restricted Stock Units unless he or she is employed by the Company or one of its Subsidiaries through the applicable vesting date.

Your signature below indicates your agreement and understanding that this award is subject to all of the terms and conditions contained in Appendix A and the Plan. For example, important additional information on vesting and forfeiture of the Restricted Stock Units is contained in paragraphs 3 through 5 and paragraph 7 of Appendix A. **PLEASE BE SURE TO READ ALL OF APPENDIX A, WHICH CONTAINS THE SPECIFIC TERMS AND CONDITIONS OF THIS AGREEMENT.**

POLYCOM, INC.	**EMPLOYEE**
______________________	______________________
[NAME]	**[NAME]**
______________________	
[TITLE]	
Date: **[DATE]**	Date: **[DATE]**

APPENDIX A

TERMS AND CONDITIONS OF RESTRICTED STOCK UNITS

1. Grant. The Company hereby grants to the Employee under the Plan an award of the Number of Restricted Stock Units set forth on the Notice of Grant, subject to all of the terms and conditions in this Agreement and the Plan. As of the date of grant, the Employee is an executive officer of the Company who is subject to Section 16 of the 1934 Act. When Shares are paid to the Employee in payment for the Restricted Stock Units, par value will be deemed paid by the Employee for each Restricted Stock Unit by past services rendered by the Employee, and will be subject to the appropriate tax withholdings. Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to them in the Plan.

2. Company's Obligation to Pay. Each Restricted Stock Unit has a value equal to the Fair Market Value of a Share on the date that the Restricted Stock Unit is granted. Unless and until the Restricted Stock Units have vested in the manner set forth in paragraphs 3 through 5, the Employee will have no right to payment of such Restricted Stock Units. Prior to actual payment of any vested Restricted Stock Units, such Restricted Stock Units will represent an unsecured obligation. Payment of any vested Restricted Stock Units will be made in whole Shares only.

3. Vesting Schedule/Period of Restriction. Except as provided in paragraphs 4 and 5, and subject to paragraph 7, the Restricted Stock Units awarded by this Agreement shall vest in accordance with the vesting provisions set forth on the first page of this Agreement. Restricted Stock Units shall not vest in the Employee in accordance with any of the provisions of this Agreement unless the Employee shall have been continuously employed by the Company or by one of its Subsidiaries from the Grant Date until the date the Restricted Stock Units are otherwise scheduled to vest.

4. Modifications to Vesting Schedule.

(a) *Vesting upon Leave of Absence.* In the event that the Employee takes an authorized leave of absence ("LOA"), the Restricted Stock Units awarded by this Agreement that are scheduled to vest shall be modified as follows:

(i) if the duration of the Employee's LOA is sixty (60) days or less, the vesting schedule set forth on the first page of this Agreement shall not be affected by the Employee's LOA.

(ii) if the duration of the Employee's LOA is greater than sixty (60) days, the scheduled vesting of any Restricted Stock Unit s awarded by this Agreement that are not then vested shall be deferred for a period of time equal to the duration of the Employee's LOA.

(b) *Death or Disability of Employee*. In the event that the Employee incurs a Termination of Service due to his or her death or Disability, the Employee shall immediately vest as to the number of Restricted Stock Units that would have vested had the Employee remained an employee of the Company or one of its Subsidiaries through **[INSERT DESCRIPTION OF VESTING CONDITIONS]**.

In the event that any applicable law limits the Company's ability to accelerate the vesting of this award of Restricted Stock Units, this paragraph 4(b) shall be limited to the extent required to comply with applicable law.

(c) *Change in Control*.

(i) In the event of a Change in Control, this award shall be subject to the definitive agreement governing such Change in Control. Such agreement, without the Employee's consent and notwithstanding any provision to the contrary in this Agreement or the Plan, must provide for one of the following: (a) the assumption of this award by the surviving corporation or its parent; (b) the substitution by the surviving corporation or its parent of an award with substantially the same terms as this award; or (c) the cancellation of this award after full vesting and payment to the Employee of the Shares then subject to the award; provided, however, that such Shares shall be considered delivered effective as of immediately prior to the Change in Control so as to enable the Employee to participate in the Change in Control transaction. In the event the definitive agreement does not provide for one of the foregoing alternatives with respect to the treatment of this award, this award shall have the treatment specified in clause (c) of the preceding sentence. The Committee may, in its sole discretion, accelerate the vesting of this award in connection with any of the foregoing alternatives. For purposes of this Agreement, "Change in Control" means the occurrence of any of the following events: (a) any "person" (as such term is used in Sections 13(d) and 14(d) of the 1934 Act) becomes the "beneficial owner" (as defined in Rule 13d-3 of the 1934 Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total voting power represented by the Company's then outstanding voting securities; (b) the consummation of the sale or disposition by the Company of all or substantially all of the Company's assets; (c) a change in the composition of the Board occurring within a one-year period, as a result of which fewer than a majority of the directors are Incumbent Directors; or (d) the consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation. "Incumbent Directors" means directors who either (A) are Directors as of the effective date of the Plan, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the Directors at the time of such election or nomination (but will not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company). Notwithstanding the foregoing, if the Employee is a party to a change of control agreement with the Company, the definition of "change of control" as defined in the change of control agreement will supersede the above definition.

(ii) Notwithstanding anything herein to the contrary, in the event the Employee incurs a Termination of Service within twelve (12) months following a Change in Control on account of a termination by the Company (or any Subsidiary) for any reason other than Cause or on account of a termination by the Employee for Good Reason, then this award immediately will vest in one hundred percent (100%) of the Restricted Stock Units subject to this Restricted Stock Unit award.

For purposes of this Agreement, "Good Reason" means without the Employee's written consent (a) a material reduction in the Employee's authority, duties or responsibilities compared to the Employee's authority, duties and responsibilities immediately prior to the Change of Control that are substantially inconsistent with the Employee being a senior executive of the Company (or a Subsidiary), (b) the Employee's principal work location being moved more than 35 miles, from the location immediately prior to the Change in Control or (c) the Company (or a Subsidiary) materially reducing the Employee's base salary (unless the base salaries of substantially all other senior executives of the Company are similarly reduced). Employee will not resign for Good Reason without first providing the Company with written notice of the acts or omissions constituting the grounds for "Good Reason" within ninety (90) days of the initial existence of the grounds for "Good Reason" and the Company must have an opportunity within thirty (30) days following delivery of such notice to cure the Good Reason condition. Notwithstanding the foregoing, if the Employee is a party to a change of control agreement with the Company, the definition of "good reason" as defined in the change of control agreement will supersede the above definition.

For purposes of this Agreement, "Cause" means (a) the Employee's failure to perform (other than due to Disability or death) the duties of the Employee's position (as they may exist from time to time) to the reasonable satisfaction of the Company (or any Subsidiary) after receipt of a written warning and at least 15 days' opportunity to for the Employee to cure the failure, (b) any act of dishonesty taken by the Employee in connection with the Employee's responsibilities as an employee that is intended to result in the Employee's substantial personal enrichment, (c) the Employee's conviction or plea of no contest to a crime that negatively reflects on the Employee's fitness to perform the Employee's duties or harms the Company's (or any Subsidiary's) reputation or business, (d) the Employee's willful misconduct that is injurious to the Company (or any Subsidiary), or (e) the Employee's willful violation of a material Company (or Subsidiary) policy. The preceding definition shall not be deemed to be inclusive of all the acts or omissions that the Company (or any Subsidiary) may consider as grounds for the dismissal or discharge of the Employee or any other individual in the service of the Company (or any Subsidiary). Notwithstanding the foregoing, if the Employee is a party to a change of control agreement with the Company, the definition of "cause" as defined in the change of control agreement will supersede the above definition.

5. <u>Committee Discretion</u>. The Committee, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the Restricted Stock Units at any time, subject to the terms of the Plan. If so accelerated, such Restricted Stock Units will be considered as having vested as of the date specified by the Committee. If the Committee, in its discretion, accelerates the vesting of the balance, or some lesser portion of the balance, of the Restricted Stock Units and the Restricted Stock Units are "deferred compensation" within the meaning of Section 409A, the payment of such accelerated Restricted Stock Units nevertheless shall be made at the same time or times as if such Restricted Stock Units had vested in accordance with the vesting schedule set forth in the Notice of Grant (whether or not the Employee remains employed by the Company or by one of its Subsidiaries as of such date(s)). Notwithstanding the foregoing, if such Restricted Stock Units are accelerated in connection with the Employee's Termination of Service (other than due to death), the Restricted Stock Units that vest on account of the Employee's Termination of Service will not be considered due or payable until the Employee has a "separation from service" within the meaning of Section 409A. In addition, if the Employee is a "specified employee" within the meaning of Section 409A at the time of the Employee's separation from service, then any such accelerated Restricted Stock Units otherwise payable within the six (6) month period following the Employee's separation from service instead will be paid on the date that is six (6) months and one (1) day following the date of the Employee's separation from service, unless the Employee dies following his or her separation from service, in which case, the accelerated Restricted Stock Units will be paid to the Employee's estate as soon as practicable following his or her death, subject to paragraph 9. Thereafter, such Restricted Stock Units shall continue to be paid in accordance with the vesting schedule set forth on the first page of this Agreement. For purposes of this Agreement, "Section 409A" means Section 409A of the

U.S. Internal Revenue Code of 1986, as amended, and any final Treasury Regulations and other Internal Revenue Service guidance thereunder, as each may be amended from time to time ("Section 409A").

6. Payment after Vesting. Any Restricted Stock Units that vest in accordance with paragraphs 3 through 4 will be paid to the Employee (or in the event of the Employee's death, to his or her estate) in Shares as soon as practicable following the date of vesting, subject to paragraph 9, but in no event later than the applicable two and one-half (2½) month period of the "short-term deferral" rule set forth in the Section 1.409A-1(b)(4) of the Treasury Regulations issued under Section 409A. Notwithstanding the foregoing, if the Restricted Stock Units are "deferred compensation" within the meaning of Section 409A, the vested Restricted Stock Units will be released to the Employee (or in the event of the Employee's death, to his or her estate) in Shares as soon as practicable following the date of vesting, subject to paragraph 9, but in no event later than the end of the calendar year that includes the date of vesting or, if later, the fifteen (15th) day of the third (3rd) calendar month following the date of vesting (provided that the Employee will not be permitted, directly or indirectly, to designate the taxable year of the payment). Further, if some or all of the Restricted Stock Units that are "deferred compensation" within the meaning of Section 409A vest on account of the Employee's Termination of Service (other than due to death) in accordance with paragraphs 3 through 4, the Restricted Stock Units that vest on account of the Employee's Termination of Service will not be considered due or payable until the Employee has a "separation from service" within the meaning of Section 409A. In addition, if the Employee is a "specified employee" within the meaning of Section 409A at the time of the Employee's separation from service (other than due to death), then any accelerated Restricted Stock Units will be paid to the Employee no earlier than six (6) months and one (1) day following the date of the Employee's separation from service unless the Employee dies following his or her separation from service, in which case, the Restricted Stock Units will be paid to the Employee's estate as soon as practicable following his or her death, subject to paragraph 9. Any Restricted Stock Units that vest in accordance with paragraph 5 will be paid to the Employee (or in the event of the Employee's death, to his or her estate) in Shares in accordance with the provisions of such paragraph, subject to paragraph 9. For each Restricted Stock Unit that vests, the Employee will receive one Share.

7. Forfeiture. Notwithstanding any contrary provision of this Agreement, the balance of the Restricted Stock Units that have not vested pursuant to paragraphs 3 through 5 at the time of the Employee's Termination of Service for any or no reason will be forfeited and automatically transferred to and reacquired by the Company at no cost to the Company.

8. Death of Employee. Any distribution or delivery to be made to the Employee under this Agreement will, if the Employee is then deceased, be made to the administrator or executor of the Employee's estate. Any such administrator or executor must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

9. Withholding of Taxes. When Shares are issued as payment for vested Restricted Stock Units, the Company (or the employing Subsidiary) will withhold a portion of the Shares that have an aggregate market value sufficient to pay federal, state, local and foreign income, social insurance, employment and any other applicable taxes required to be withheld by the Company or the employing Subsidiary with respect to the Shares, unless the Company, in its sole discretion, either requires or otherwise permits the Employee to make alternate arrangements satisfactory to the Company for such withholdings in advance of the arising of any withholding obligations. The number of Shares withheld pursuant to the prior sentence will be rounded up to the nearest whole Share, with no refund for any value of the Shares withheld in excess of the tax obligation as a result of such rounding. Notwithstanding any contrary provision of this Agreement, no Shares will be issued unless and until satisfactory arrangements (as determined by the Company) have been made by the Employee with respect to the payment of any income and other taxes which the Company determines must be withheld or collected with respect to such Shares. In addition and to the maximum extent permitted by law, the Company (or the employing Subsidiary) has the right to retain without notice from salary or other amounts payable to the Employee, cash having a sufficient value to satisfy any tax withholding obligations that the Company determines cannot be satisfied through the withholding of otherwise deliverable Shares. All income and other taxes related to the Restricted Stock Units award and any Shares delivered in payment thereof are the sole responsibility of the Employee. By accepting this award, the Employee expressly consents to the withholding of Shares and to any additional cash withholding as provided for in this paragraph 9.

10. Rights as Stockholder. Neither the Employee nor any person claiming under or through the Employee will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares (which may be in book entry form) will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to the Employee (including through electronic delivery to a brokerage account). After such issuance, recordation and delivery, the Employee will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

11. No Effect on Employment. Subject to any employment contract with the Employee, the terms of such employment will be determined from time to time by the Company, or the Subsidiary employing the Employee, as the case may be, and the Company, or the Subsidiary employing the Employee, as the case may be, will have the right, which is hereby expressly reserved, to terminate or change the terms of the employment of the Employee at any time for any reason whatsoever, with or without good cause.

The transactions contemplated hereunder and the vesting schedule set forth on the first page of this Agreement do not constitute an express or implied promise of continued employment for any period of time. A leave of absence or an interruption in service (including an interruption during military service) authorized or acknowledged by the Company or the Subsidiary employing the Employee, as the case may be, shall not be deemed a Termination of Service for the purposes of this Agreement.

12. Address for Notices. Any notice to be given to the Company under the terms of this Agreement will be addressed to the Company, in care of its General Counsel, at 6001 America Center Dr., P.O. Box 641390, San Jose, CA 95164 or at such other address as the Company may hereafter designate in writing.

13. Grant is Not Transferable. Except to the limited extent provided in this Agreement, this grant of Restricted Stock Units and the rights and privileges conferred hereby will not be sold, pledged, assigned, hypothecated, transferred or disposed of any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process, until the Employee has been issued Shares in payment of the Restricted Stock Units. Upon any attempt to sell, pledge, assign, hypothecate, transfer or otherwise dispose of this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

14. Restrictions on Sale of Securities. The Shares issued as payment for vested Restricted Stock Units under this Agreement will be registered under U.S. federal securities laws and will be freely tradable upon receipt. However, an Employee's subsequent sale of the Shares may be subject to any market blackout-period that may be imposed by the Company and must comply with the Company's insider trading policies, and any other applicable securities laws.

15. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

16. Additional Conditions to Issuance of Certificates for Shares. The Company shall not be required to issue any certificate or certificates for Shares hereunder prior to fulfillment of all the following conditions: (a) the admission of such Shares to listing on all stock exchanges on which such class of stock is then listed; (b) the completion of any registration or other qualification of such Shares under any U.S. state or federal law or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body, which the Committee shall, in its absolute discretion, deem necessary or advisable; (c) the obtaining of any approval or other clearance from any U.S. state or federal governmental agency, which the Committee shall, in its absolute discretion, determine to be necessary or advisable; and (d) the lapse of such reasonable period of time following the date of vesting of the Restricted Stock Units as the Committee may establish from time to time for reasons of administrative convenience.

17. Plan Governs. This Agreement is subject to all the terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan will govern.

18. Committee Authority. The Committee will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Restricted Stock Units have vested). All actions taken and all interpretations and determinations made by the Committee in good faith will be final and binding upon the Employee, the Company and all other interested persons. No member of the Committee will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

19. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

20. Agreement Severable. In the event that any provision in this Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

21. Modifications to the Agreement. This Agreement constitutes the entire understanding of the parties on the subjects covered. The Employee expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Agreement, the Company reserves the right to revise this Agreement as it deems necessary or advisable, in its sole discretion and without the consent of the Employee, to comply with Section 409A or to otherwise avoid imposition of any additional tax or income recognition under S ection 409A prior to the actual payment of Shares pursuant to this award of Restricted Stock Units, provided that any such revisions shall not materially reduce the benefits intended to be conferred by this Agreement. However, in no

event will the Company be obligated to make any such revision and in all events, the Employee will be solely responsible for any taxes that may be owed under Section 409A on account of this award of Restricted Stock Units.

22. Amendment, Suspension or Termination of the Plan . By accepting this Restricted Stock Units award, the Employee expressly warrants that he or she has received a right to receive stock under the Plan, and has received, read and understood a description of the Plan. The Employee understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

23. Labor Law . By accepting this Restricted Stock Units award, the Employee acknowledges that: (a) the grant of these Restricted Stock Units is a one-time benefit which does not create any contractual or other right to receive future grants of Restricted Stock Units, or benefits in lieu of Restricted Stock Units; (b) all determinations with respect to any future grants, including, but not limited to, the times when the Restricted Stock Units shall be granted, the number of Restricted Stock Units subject to each Restricted Stock Unit award and the time or times when the Restricted Stock Units shall vest, will be at the sole discretion of the Company; (c) the Employee's participation in the Plan is voluntary; (d) the value of these Restricted Stock Units is an extraordinary item of compensation which is outside the scope of the Employee's employment contract, if any; (e) these Restricted Stock Units are not part of the Employee's normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments; (f) the vesting of these Restricted Stock Units will cease upon termination of employment for any reason except as may otherwise be explicitly provided in the Plan or this Agreement; (g) the future value of the underlying Shares is unknown and cannot be predicted with certainty; (h) these Restricted Stock Units have been granted to the Employee in the Employee's status as an employee of the Company or its Subsidiaries; (i) any claims resulting from these Restricted Stock Units shall be enforceable, if at all, against the Company; and (j) there shall be no additional obligations for any Subsidiary employing the Employee as a result of these Restricted Stock Units.

24. Disclosure of Employee Information . By accepting this Restricted Stock Units award, the Employee consents to the collection, use and transfer of personal data as described in this paragraph. The Employee understands that the Company and its Subsidiaries hold certain personal information about him or her, including his or her name, home address and telephone number, date of birth, social security or identity number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all awards of Restricted Stock Units or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in his or her favor, for the purpose of managing and administering the Plan ("Data"). The Employee further understands that the Company and/or its Subsidiaries will transfer Data among themselves as necessary for the purpose of implementation, administration and management of his or her participation in the Plan, and that the Company and/or any of its Subsidiaries may each further transfer Data to any third parties assisting the Company in the implementation, administration and management of the Plan. The Employee understands that these recipients may be located in the European Economic Area, or elsewhere, such as in the U.S. The Employee authorizes the Company to receive, possess, use, retain and transfer the Data in electronic or other form, for the purposes of implementing, administering and managing his or her participation in the Plan, including any requisite transfer to a broker or other third party with whom he or she may elect to deposit any Shares of stock acquired from this award of Restricted Stock Units of such Data as may be required for the administration of the Plan and/or the subsequent holding of Shares of stock on his or her behalf. The Employee understands that he or she may, at any time, view the Data, require any necessary amendments to the Data or withdraw the consent herein in writing by contacting the Equity Programs Department for the Company and/or its applicable Subsidiaries.

25. Notice of Governing Law . This award of Restricted Stock Units shall be governed by, and construed in accordance with, the laws of the State of California, without regard to principles of conflict of laws.

26. Non-Compete . The Employee agrees that for the period commencing on the date the Employee executes this Agreement and ending on the date occurring twelve (12) months after the Employee incurs a Termination of Service (the "Obligations Period"), the Employee, directly or indirectly, whether as an employee, owner, sole proprietor, partner, director, member, consultant, agent, founder, co-venturer or otherwise, will (a) not engage, participate or invest in any business activity anywhere in the world that is directly competitive with the principal products or services of the Company and its subsidiaries (the "Businesses") (except that it will not be a violation of this paragraph 26 for the Employee to own as a passive investment not more than one percent of any class of publicly traded securities of any entity); nor (b) solicit business from any of the Businesses' customers and users on behalf of any business that directly competes with the Businesses. Notwithstanding any contrary provision of this Agreement, the Committee, in its discretion, may choose to waive the requirements of this paragraph 26 (including, but not limited to, upon the advice of legal counsel to the Company), and shall waive such requirements in circumstances where enforceability of this paragraph 26 is precluded by applicable law. This paragraph 26 will not apply to any Employee whose principal work location is in the State of California.

27. Non-Solicit . The Employee agrees that for the Obligations Period, the Employee will not either directly or indirectly solicit, induce, recruit, or encourage any of the Company's employees to leave their employment, or take away such employees, either for the benefit of the Employee or on behalf of another entity; provided, however, this provision is not enforceable with respect to the Employee's administrative assistant.

Exhibit 31.1

CERTIFICATION

I, Peter A. Leav, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Polycom, 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(s) 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(s) 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 the 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.

May 1, 2014

By: /s/ PETER A. LEAV
Name: Peter A. Leav
Title: President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Laura J. Durr, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Polycom, 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(s) 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(s) 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 the 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.

May 1, 2014

By: /s/ LAURA J. DURR
Name: Laura J. Durr
Title: Interim Chief Financial Officer, Senior Vice President, and Chief Accounting Officer

Exhibit 32.1

Certification of the President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, Peter A. Leav, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Polycom, Inc. on Form 10-Q for the three months ended March 31, 2014 fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Polycom, Inc.

May 1, 2014	By:	/s/ PETER A. LEAV
	Name:	Peter A. Leav
	Title:	President and Chief Executive Officer

Certification of the Interim Chief Financial Officer, Senior Vice President, and Chief Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, Laura J. Durr, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Polycom, Inc. on Form 10-Q for the three months ended March 31, 2014 fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Polycom, Inc.

May 1, 2014	By:	/s/ LAURA J. DURR
	Name:	Laura J. Durr
	Title:	Interim Chief Financial Officer, Senior Vice President, and Chief Accounting Officer